



**THE ILLINOIS LITERACY FOUNDATION**

(A Component Unit of the State of Illinois)

FINANCIAL AUDIT

For the Two Years Ended June 30, 2019

Performed as Special Assistant Auditors for the  
Auditor General, State of Illinois

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THE ILLINOIS LITERACY FOUNDATION  
 (A Component Unit of the State of Illinois)  
 FINANCIAL AUDIT  
 For the Two Years Ended June 30, 2019

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THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)  
FINANCIAL AUDIT  
For the Two Years Ended June 30, 2019

AGENCY OFFICIALS

Ex Officio Director	Honorable Jesse White, Secretary of State
Executive Director	Thomas N. Benigno
President	Michael C. Mroz
Vice President (09/12/17 – Present)	John Rosales
Vice President (prior to 09/12/17)	Vacant
Treasurer	Dr. Roberto R. Castaneda
Secretary	Heather Bookstaver
Fiscal Officer	Greg McCormick
General Counsel	Irene Lyons

Illinois Literacy Foundation office is located at:

100 West Randolph Street  
Chicago, IL 60601

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)  
FINANCIAL AUDIT  
For the Two Years Ended June 30, 2019

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Illinois Literacy Foundation (Foundation) was performed by Sikich LLP.

Based on their audit, the auditors expressed a qualified opinion on the Foundation's basic financial statements.

**SUMMARY OF FINDINGS**

The auditors identified one matter involving the Foundation's internal control over financial reporting that they considered to be a material weakness. Further, the auditors identified one material noncompliance matter.

<u>Item No.</u>	<u>Page</u>	<u>Last Reported</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2019-001	19	NEW	Inaccurate Inventory Records	Material Weakness and Material Noncompliance

PRIOR FINDINGS NOT REPEATED

A	22	2017	Failure to Identify Financial Statement Reporting Errors
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**EXIT CONFERENCE**

The Foundation waived an exit conference in correspondence from Greg McCormick, Fiscal Officer, on April 22, 2020. The responses to the recommendations were provided by Greg McCormick, Fiscal Officer, in correspondence dated April 23, 2020.

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Springfield, IL 62704  
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## INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

Board of Directors  
The Illinois Literacy Foundation

### **Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities and the major fund of the Illinois Literacy Foundation (Foundation), a component unit of the State of Illinois, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Basis for Qualified Opinion**

Because of the inadequacy of accounting records for the year 2019 and 2018, we were unable to obtain sufficient appropriate audit evidence regarding the amounts at which inventory is recorded in the accompanying balance sheet at June 30, 2019 and 2018 (stated at \$3,463 and \$7,254, respectively).

### **Qualified Opinion**

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Illinois Literacy Foundation as of June 30, 2019 and 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Management has omitted a management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

#### *Other Information*

Our audits for the years ended June 30, 2019 and 2018 were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Illinois Literacy Foundation's basic financial statements.

The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2020, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

### **Restricted Use of this Auditor's Report**

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, the Foundation's governing board, and the Foundation's management and is not intended to be and should not be used by anyone other than these specified parties.

**SIGNED ORIGINAL ON FILE**

Springfield, Illinois  
April 23, 2020

## BASIC FINANCIAL STATEMENTS

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

GOVERNMENTAL FUND BALANCE SHEETS/STATEMENTS OF NET POSITION  
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS:		
Cash	\$ 13,646	\$ 17,075
Inventory	<u>3,463</u>	<u>7,254</u>
Total Assets	<u>\$ 17,109</u>	<u>\$ 24,329</u>
FUND BALANCE/NET POSITION		
Assigned/Unrestricted	\$ 13,646	\$ 17,075
Nonspendable/Restricted	<u>3,463</u>	<u>7,254</u>
Total Fund Balance/Net Position	<u>\$ 17,109</u>	<u>\$ 24,329</u>

See accompanying Notes to Financial Statements.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2019

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program revenues Operating grants and contributions</u>	<u>Net (expense) revenue</u>
Illinois Literacy Foundation	\$ 32,043	\$ 13,061	\$ (18,982)
General revenues:			
Contributions not restricted to specific programs			11,754
Investment income			8
Total general revenues			<u>11,762</u>
Change in net position			<u>(7,220)</u>
Fund Balance/Net position - beginning			24,329
Fund Balance/Net position - ending			<u><u>\$ 17,109</u></u>

See accompanying Notes to Financial Statements.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program revenues Operating grants and contributions</u>	<u>Net (expense) revenue</u>
Illinois Literacy Foundation	\$ 13,957	\$ 9,151	\$ (4,806)
General revenues:			
Contributions not restricted to specific programs			10,800
Investment income			8
Total general revenues			<u>10,808</u>
Change in net position			<u>6,002</u>
Fund Balance/Net position - beginning			18,327
Fund Balance/Net position - ending			<u><u>\$ 24,329</u></u>

See accompanying Notes to Financial Statements.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Illinois Literacy Foundation (the Foundation) was created by State Statute (15 ILCS 322/40) to promote literacy among the residents of the State of Illinois by supporting literacy programs and enhancing Statewide literacy awareness, to make grants and gifts in aid in support of the goal, and to engage generally in other lawful endeavors consistent with the foregoing purposes. The Foundation develops strategies and pioneers test programs that can be implemented at a local level to fill identified gaps in the literacy efforts of the State of Illinois. Directors of the Foundation's Board are appointed by the Secretary of State of Illinois, who also has the authority to remove said Directors. In addition, the Secretary of State adopts rules and regulations necessary to govern Foundation procedures.

B. Financial Reporting Entity

The Foundation's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or,
- 2) Fiscal dependency on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the Foundation has no component units. However, the Foundation is a component unit of the State of Illinois. Therefore, the financial statements of the Foundation are included in the financial statements of the State of Illinois. The State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2019 and 2018

C. Basis of Presentation

For reporting purposes, the Foundation has combined its presentation of the fund financial statements and the government-wide financial statements. There are no differences between the fund financial data and the government-wide data, and therefore, no reconciliation is presented herein. A brief description of the Foundation's government-wide financial statements is as follows:

**Government-wide Statements:** The government-wide statement of net position and statement of activities report the overall financial activity of the Foundation. The financial activities of the Foundation consist only of governmental activities, which are primarily supported by in kind donations through the 10 Ton Challenge program and on behalf contributions from the Office of the Secretary of State.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

The Foundation administers the following major governmental fund:

**General Fund** – This is the Foundation's primary operating fund. It accounts for all financial resources of the Foundation. The services that are administered by the Foundation and accounted for in this fund include the promotion of literacy among the residents of the State of Illinois.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Foundation gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. On an accrual basis, revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2019 and 2018

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Foundation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

E. Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the Foundation is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances are self-imposed limitations approved by the Foundation’s Board of Directors, which is the highest level of decision-making authority within the Foundation. Only the Board of Directors can remove or change the constraints placed on committed fund balances.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Foundation for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the State legislature.

Unassigned – The unassigned fund balance classification is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications.

The Foundation applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and the unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

THE ILLINOIS LITERACY FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2019 and 2018

F. Net Position

In the government-wide financial statements, equity is displayed as follows:

Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State’s policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net position that does not meet the definition of “restricted”, which includes any net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

G. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Inventory

Inventory, consisting of books, is valued at cost, principally on the first-in, first-out (FIFO) method. The cost of inventory is recognized as expenditures when purchased.

I. Accounting Pronouncements

Effective for the year ending June 30, 2018, the Foundation adopted the following GASB statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statement No. 45 and requires governments to report a liability on the face of the financial statements for the Other Postemployment Benefits (OPEB) they provide. In addition, this statement requires governments participating in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government’s actual OPEB contributions to its contribution requirements. The implementation of this statement had no impact on the Foundation’s net position or results of operations.

THE ILLINOIS LITERACY FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2019 and 2018

Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting guidance for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement had no financial impact on the Foundation's net position or results of operations.

Statement No. 85, *Omnibus 2017*, which addresses practice issues 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. The implementation of this statement had no financial impact on the Foundation's net position or results of operations.

Statement No 86, *Certain Debt Extinguishment Issues*, improves 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. In addition, this statement 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. The implementation of this statement had no financial impact on the Foundation's net position or results of operations.

Effective for the year ending June 30, 2019, the Foundation adopted the following GASB statements:

Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The implementation of this statement had no financial impact on the Foundation's net position or results of operations.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is intended to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should be including when disclosing information related to debt. The implementation of this statement had no financial impact on the Foundation's net position or results of operations.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2019 and 2018

Effective for the year ending June 30, 2020, the Foundation will adopt the following GASB statement:

Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. In addition, this statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

Effective for the year ending June 30, 2021, the Foundation will adopt the following GASB statements:

Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is intended to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

Effective for the year ending June 30, 2022, the Foundation will adopt the following GASB statement:

Statement No. 91, *Conduit Debt Obligations*, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

The Foundation has not yet determined the impact of adopting these statements on its financial statements.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2019 and 2018

2. DEPOSITS

Bank deposits of \$13,646 and \$17,075 as of June 30, 2019 and 2018 are held in Federal Deposit Insurance Corporation (FDIC) insured depository institutions. The Foundation has not incurred any losses on deposits exceeding FDIC limits and considers the risk minimal.

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned. The Foundation does not have a deposit policy for custodial credit risk. As of June 30, 2019 and 2018, \$0 of the Foundation's bank balances of \$13,646 and \$17,075, respectively, was exposed to custodial credit risk.

3. INCOME TAXES

The Foundation is a not-for-profit organization and claims exemption from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Service Code and similar provisions of State tax codes.

4. RELATED PARTY TRANSACTIONS

Salaries and wages and the related employee benefits of the Executive Director and his assistants are paid by the State of Illinois Office of the Secretary of State and are not reported in the financial statements of the Foundation. The Office also provides office space, equipment, and some administrative expenses for the Foundation.

The amount of financial assistance from the Office to the Foundation for the years ended June 30, 2019 and 2018, was as follows:

	FY2019	FY2018
Contractual services	\$ 10,984	\$ 9,861
Travel	-	168
Commodities	406	406
Telecommunications	364	365
Total	\$ 11,754	\$ 10,800

The total of \$11,754 and \$10,800 are included in the Statements of Activities as a General Administrative revenue and expense.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2019 and 2018

5. 10 TON CHALLENGE

In 2018, the Foundation created the “10 Ton Challenge” to provide a book to all public school children in the 10 lowest-per capita counties in Illinois. Through a partnership with ThriftBooks, books are donated to the Foundation for this distribution. Books originate from several sources – retailers, direct from publishers, and pre-owned library books. Not all books shipped are retained for the “10 Ton Challenge”. Books that are not in “new” condition are recycled per the Foundation’s agreement with ThriftBooks.

ThriftBooks ships the donations in bulk and does not predetermine the value of the items contained in the shipment. The value of the donated books, which will be retained for the “10 Ton Challenge”, is determined by entering each title into an online service, Abebooks.com, a marketplace for books, fine art and collectibles. The marketplace is maintained by independent sellers worldwide. The value is set by the lowest price found for a particular title. An inventory is maintained for the quantity of books obtained through this process. Inventory is reduced when each shipment is made to a school district.

During FY19, \$12,735 of books were accepted and \$16,526 books were distributed. During FY18, \$8,836 were accepted and \$1,582 were distributed. Book inventories of \$3,463 and \$7,254 were reported as of June 30, 2019 and June 30, 2018, respectively.

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Springfield, IL 62704  
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INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

Board of Directors  
The Illinois Literacy Foundation

### **Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of the Illinois Literacy Foundation (Foundation), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and we have issued our report thereon dated April 23, 2020.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2019-001.

### **Internal Control Over Financial Reporting**

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Foundation's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as item 2019-001 that we consider to be a material weakness.

### **Foundation's Response to the Finding**

The Foundation's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Foundation's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

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

**SIGNED ORIGINAL ON FILE**

Springfield, Illinois  
April 23, 2020

THE ILLINOIS LITERACY FOUNDATION  
 (A Component Unit of the State of Illinois)  
 FINANCIAL AUDIT  
 For the Two Years Ended June 30, 2019

**SCHEDULE OF FINDINGS**

**CURRENT FINDINGS – Government Auditing Standards**

**2019-001. FINDING** (Inaccurate inventory records)

The Illinois Literacy Foundation (Foundation) did not maintain accurate inventory records for the years ended June 30, 2018 and June 30, 2019.

**Inventory Quantities**

During our testing of inventory, the Foundation was unable to provide inventory records to support the number of books accepted for each fiscal year and the Foundation did not have any inventory listings as of June 30, 2018 or June 30, 2019.

The Foundation did provide a listing of the number of books that were distributed to each school for each fiscal year. During our testing over the distribution listings provided by the Foundation, we were unable to verify the amounts that were recorded on the financial statements as inventory expense for both fiscal years 2018 and 2019. During our testing, we noted the following exceptions to the distribution listing:

- The distribution listing for fiscal year ending June 30, 2018 did not identify the books by type; therefore, we were unable to recalculate the total value distributed in fiscal year 2018.
- The following differences were noted between the fiscal year 2019 distribution records and the fiscal year 2019 final inventory summary:

<b>Book Type</b>	<b>Distributed per Distribution Records</b>	<b>Distributed per Final Inventory Summary</b>	<b>Difference Quantity</b>	<b>Difference Dollar Amount</b>
Picture Books	3,662	3,629	33	\$72.60
Chapter Books	4,670	5,384	(714)	(1,199.52)
Easy Read Books	332	324	8	15.04
Total	8,664	9,337	(673)	(1,111.88)

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)  
FINANCIAL AUDIT  
For the Two Years Ended June 30, 2019

**2019-001. FINDING** (Inaccurate inventory records) – Continued

Inventory Pricing

The Foundation utilized a website which provides an online marketplace for books to value its inventory at the beginning of fiscal year 2018. The Foundation selected a sample of 50 books from each category to determine the average price per type of book. The Foundation carried forward the averages obtained from the website for the remainder of the engagement period. In our inventory pricing testing, we sampled 20 books to verify the Foundation was using the lowest price listed on the website to calculate the average inventory cost that was used to price inventory. Testing of this process was the only manner the auditors could test the Foundation's inventory pricing. Of the books tested, we noted 14 of the 20 (70%) books had a difference in cost per the website than listed by the Foundation in their sample pricing. The cost difference totaled \$1.32 for the 14 books noted with differences. Due to the inaccurate inventory records, this cost difference cannot be extrapolated over the entire inventory population to determine the material effect on the financial statements. The Foundation did not preserve documentation of its initial pricing exercise.

The Illinois Office of the Comptroller requires State agencies, in certain cases, to prepare GAAP basis financial statements to assist in the annual preparation of the Statewide financial statements and provide adequate audit coverage of those statements, GAAP reporting instructions are specified in the Comptroller's Statewide Accounting Management System (SAMS) Manual, Chapter 27.

In addition, the Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal internal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal control procedures require adequate management oversight and review of accounting policies and procedures as well as on overall review of financial reporting for accuracy and compliance with generally accepted accounting principles.

Foundation management indicated the system was not designed and maintained to allow for the proper documentation of inventory records due to not fully considering all applicable accounting standards.

Failure to maintain accurate inventory records could result in inaccurate financial statements and noncompliance with SAMS and the Fiscal Control and Internal Auditing Act. (Finding Code No. 2019-001)

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**2019-001. FINDING** (Inaccurate inventory records) – Continued

**RECOMMENDATION**

We recommend the Foundation strongly emphasize the importance of maintaining accurate inventory records throughout the year. Additionally, the Foundation should perform periodic physical inventory counts throughout the year and reconcile those to Foundation records. Finally, training and ongoing education should be provided to all employees involved in the inventory process.

**FOUNDATION RESPONSE**

The Illinois Literacy Foundation concurs with the finding and the following actions have been taken to address the situation. The relationship with Thriftbooks, described in Footnote 5 of the Notes to Financial Statements, has been suspended. The methodology for valuation of inventory described in this finding will no longer be utilized.

The ongoing inventory that will be necessary to fulfill requirements for the “10 Ton Challenge” is being obtained through a process that will provide itemized title and cost information for each book that will be distributed to public school children.

Staff assigned to this task from the Illinois State Library Department has been provided with ongoing explanation of the new required process for inventory accuracy.

The final inventory for FY20, at June 30, 2020, should reflect these changes. Due to the current COVID-19 situation, the “10 Ton Challenge” initiative has been extended through the end of the 2020-2021 academic year to allow schools to accept shipments of books.

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PRIOR FINDINGS NOT REPEATED

A. **FINDING** (Failure to identify financial statement report error)

During the previous examination, The Illinois Literacy Foundation (Foundation) did not identify a required adjustment necessary to ensure the Foundation's audited financial statements were accurately presented in accordance with generally accepted accounting principles.

During the current examination, we noted adjustments were needed to the Foundation's financial statements due to the weaknesses cited in Finding 2019-001. (Finding Code No. 2017-001)