



THE ILLINOIS LITERACY FOUNDATION

(A Component Unit of the State of Illinois)

FINANCIAL AUDIT

For the Two Years Ended June 30, 2021

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, 2021

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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, 2021

FOUNDATION OFFICIALS

Ex Officio Director	Honorable Jesse White, Secretary of State
Executive Director	Thomas N. Benigno
Fiscal Officer	Greg McCormick
General Counsel	Irene Lyons

BOARD OFFICERS

President	Michael C. Mroz
Vice President	John Rosales
Treasurer	Dr. Roberto R. Castaneda
Secretary	Heather Bookstaver

FOUNDATION OFFICE

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, 2021

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 unmodified opinion on the Foundation’s basic financial statements.

SUMMARY OF FINDINGS

Number of	<u>Current</u>	<u>Prior</u>
	Report	Report
Finding	1	1
Repeated Findings	1	0
Prior Findings Implemented or Not Repeated	0	1

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First</u> <u>Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2021-001	19	2019/ 2019	Inaccurate Inventory Records	Material Weakness and Material Noncompliance

EXIT CONFERENCE

The Foundation waived an exit conference in correspondence from Greg McCormick, Fiscal Officer, on February 24, 2022. The response to the recommendation was provided by Greg McCormick, Fiscal Officer, in correspondence dated March 2, 2022.

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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, 2021 and 2020, 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.

Opinions

In our opinion, the financial statements referred to above 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, 2021 and 2020, 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.

The accompanying supplementary 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 March 3, 2022, 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
March 3, 2022

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS:		
Cash	\$ 14,077	\$ 13,442
Inventory	172	613
	<u> </u>	<u> </u>
Total Assets	<u>\$ 14,249</u>	<u>\$ 14,055</u>
FUND BALANCE/NET POSITION		
Assigned/Unrestricted	\$ 14,077	\$ 13,442
Nonspendable/Restricted	172	613
	<u> </u>	<u> </u>
Total Fund Balance/Net Position	<u>\$ 14,249</u>	<u>\$ 14,055</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
& CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021**

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program revenues Operating grants and contributions</u>	<u>Net (expense) revenue</u>
Illinois Literacy Foundation	\$ 1,153	\$ 1,004	\$ (149)
General revenues:			
Contributions not restricted to specific programs			342
Interest income			1
Total general revenues			<u>343</u>
Change in net position			194
Fund Balance/Net position - beginning			<u>14,055</u>
Fund Balance/Net position - ending			<u><u>\$ 14,249</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
& CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2020

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program revenues Operating grants and contributions</u>	<u>Net (expense) revenue</u>
Illinois Literacy Foundation	\$ 13,946	\$ 2,555	\$ (11,391)
General revenues:			
Contributions not restricted to specific programs			8,332
Interest income			5
Total general revenues			<u>8,337</u>
Change in net position			(3,054)
Fund Balance/Net position - beginning			17,109
Fund Balance/Net position - ending			<u>\$ 14,055</u>

See accompanying Notes to Financial Statements.

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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 of Illinois' Annual Comprehensive Financial Report may be obtained by accessing the State Comptroller Office's website: <https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/annual-comprehensive-financial-report/>.

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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. The Foundation's nonspendable fund balance consists of amounts for inventory.

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. Fund balance assignments can only be removed by the Board of Directors.

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

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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.

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.

I. Accounting Pronouncements

1) Adoption of New Accounting Pronouncements

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

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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. The implementation of this statement had no financial impact on the Foundation's net position or results of operations.

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. The implementation of this statement had no financial impact on the Foundation's net position or results of operations.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to address accounting and financial reporting implications that result from the replacement of an interbank offered rate as an appropriate benchmark interest rate. The implementation of this statement had no financial impact on the Foundation's net position or results of operations.

2) Future Adoption of GASB Statements

Effective for the year ending June 30, 2022, 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) simplify accounting for interest cost incurred before the end of a construction period.

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

The portion of Statement No. 92, *Omnibus 2020*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements related to (a) intra-entity transfers of assets, (b) reporting assets accumulated for defined benefit postemployment benefits provided through plans that are not administered through trusts that meet specified criteria, (c) applicability of certain requirements of Statement No. 84 to postemployment benefit arrangements, (d) exception to acquisition value in a government acquisition and (e) nonrecurring fair value measurements.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to remove the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate.

The portion of Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, which is intended to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Effective for the year ending June 30, 2023, the Foundation will adopt the following GASB statements:

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.

Statement No. 94, *Public-Private and Public-Public Partnerships and Available Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

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

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

2. DEPOSITS

Bank deposits of \$14,077 and \$13,442 as of June 30, 2021 and 2020 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, 2021, and 2020, \$0 of the Foundation's bank balances of \$14,077 and \$13,442, 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 (Office) 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, 2021 and 2020, was as follows:

	<u>FY2021</u>	<u>FY2020</u>
Contractual services	\$ -	\$ 7,840
Commodities	-	136
Telecommunications	<u>342</u>	<u>356</u>
Total	<u>\$ 342</u>	<u>\$ 8,332</u>

The total of \$342 and \$8,332 are included in the Statements of Activities as a General Administrative revenue and expense.

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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 FY21, \$0 of books were accepted and \$441 books were distributed. During FY20, \$2,444 of books were accepted and \$5,294 were distributed. Book inventories of \$172 and \$613 were reported as of June 30, 2021 and June 30, 2020, respectively.

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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

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 years ended June 30, 2021 and 2020, 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 March 3, 2022.

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 an instance 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 2021-001.

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 2021-001 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
March 3, 2022

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
For the Two Years Ended June 30, 2021

2021-001 **FINDING** (Inaccurate Inventory Records)

The Illinois Literacy Foundation (Foundation) did not maintain accurate inventory records for the years ended June 30, 2020 and June 30, 2021.

Inventory Quantities

During our testing of inventory, the Foundation was unable to provide inventory records to support the number of books accepted for Fiscal Year 2020. Foundation management stated no books were accepted in Fiscal Year 2021.

The Foundation provided a listing of the number of books that were distributed to each school for Fiscal Year 2021. The Foundation could not provide the distribution listing for Fiscal Year 2020. During our testing over the distribution listings provided by the Foundation, we were unable to verify to the amounts that were recorded on the financial statements as inventory expense for fiscal year 2020. There was no distribution listing for fiscal year ending June 30, 2020; therefore, we were unable to recalculate the total value distributed of fiscal year 2020.

Inventory Pricing

The Foundation utilized AbeBooks.com 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 AbeBooks.com for the remainder of the engagement period. In the prior engagement period, the auditors selected a sample of inventory to test the Foundation's inventory pricing. The Foundation did not preserve documentation of its initial pricing exercise and the auditors noted multiple inventory pricing difference during their testing. It was noted that the cost difference could not be extrapolated over the entire inventory population to determine the material effect on the financial statements. During the current engagement period, the Foundation indicated that there was no change from the prior engagement and the Foundation has no documentation to support the initial pricing of its inventory. Based upon this, Sikich was unable to verify the pricing of the Foundation's inventory.

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.

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
For the Two Years Ended June 30, 2021

2021-001 **FINDING** (Inaccurate Inventory Records) (Continued)

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 stated the book program which resulted in the inventory balance was anticipated to end prior to June 30, 2021, but was delayed due to the COVID-19 pandemic. Foundation management stated additional corrective action was not implemented due to the short-term life of the book program.

Failure to maintain accurate inventory records could result in inaccurate financial statements and noncompliance with SAMS and the Fiscal Control and Internal Auditing Act. (2021-001; 2019-001)

RECOMMENDATION

We recommend the Foundation strongly emphasize the importance of maintaining accurate inventory records throughout the year. Additionally, 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, as it relates to the period of July 2019 – December 2019. The Foundation took significant corrective action upon learning of the concern expressed in the audit for the two years ending June 30, 2019. While that action did not allow for correction of book valuation and modification of inventory controls for the six month period of July – December 2019, the Foundation believes the inventory control procedures implemented did significantly address the issue.

The Foundation did not revalue book titles as indicated in the inventory record established on December 27, 2019 that were received through Thriftbooks literacy partnership program. The collective value of those titles was previously determined to be \$573; Thriftbooks did not provide a valuation on items shipped to literacy programs as part of their social responsibility outreach.