

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT EXAMINATION REPORT

OF

INDIANA STATE LIBRARY FOUNDATION, INC.

January 1, 2012 to December 31, 2012



FILED
10/30/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Accountant's Report.....	3
Financial Statement:	
Statement of Receipts, Disbursements, and Cash Balances - Regulatory Basis	6
Notes to Financial Statement.....	7
Examination Results and Comments:	
Internal Controls Over Disbursements	8
Internal Controls Over Receipts	9
Bank Reconciliations	9
Accounting Records	9-10
Exit Conference.....	11
Official Response	12-13

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chairman	Robert G. Barcus	01-01-12 to 12-31-13
Treasurer	Jonathan J. Myers	01-01-12 to 12-31-13
Administrator	James Corridan Roberta L. Brooker Wendy Knapp	01-01-12 to 07-01-12 07-02-12 to 10-21-12 10-22-12 to 06-30-14



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA STATE LIBRARY FOUNDATION, INC.

We have examined the accompanying financial statement of the Indiana State Library Foundation, Inc. (Foundation), for the year ended December 31, 2012. The financial statement is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the financial statement based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the Foundation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the Foundation for the year ended December 31, 2012.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the Foundation for the year ended December 31, 2012, on the basis of accounting described in Note 1.

The Foundation's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine the Foundation's response and, accordingly, we express no opinion on it.

Bruce Hartman
State Examiner

September 25, 2013

(This page intentionally left blank.)

FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Foundation.
The financial statement and notes are presented as intended by the Foundation.

INDIANA STATE LIBRARY FOUNDATION, INC.
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

	2012
Cash, January 1	\$ <u> -</u>
Receipts:	
Individual donations	6,443
Grant support and reimbursement	53,774
Interest Income	349
Funds transferred from State of Indiana	3,236,478
Funds transferred from the Friends of Archives	<u>2,279</u>
Total receipts	<u>3,299,323</u>
Disbursements:	
General operating	879
Conference expenses	6,199
Grant expenses	51,147
Professional services	<u>3,653</u>
Total disbursements	<u>61,878</u>
Excess of total receipts over total disbursements	<u>3,237,445</u>
Cash, December 31	<u>\$ 3,237,445</u>

The accompanying notes are an integral part of this statement.

INDIANA STATE LIBRARY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Indiana State Library Foundation, Inc. (Foundation), was authorized and established under Public Law 47-2011. The Foundation is established as a 501(c)(3) Corporation. The Foundation was established for the benefit of, to perform the functions of, and to carry out the purposes of the Indiana State Library. The Foundation provides support, enhancement and promotion of activities of the Indiana State Library, their programs and collections, and to aid in development of library related programs benefiting libraries throughout the state and the library profession.

The accompanying financial statement presents the financial information for the Foundation.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The regulatory basis differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred.

Note 2. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Foundation does not have a deposit policy for custodial credit risk. The Foundation's deposits were insured by the Federal Depository Insurance Corporation up to the limits established by federal guidelines.

INDIANA STATE LIBRARY FOUNDATION, INC.
EXAMINATION RESULTS AND COMMENTS
December 31, 2012

INTERNAL CONTROLS OVER DISBURSEMENTS

Our testing of disbursements revealed the following deficiencies in the internal control structure at the Indiana State Library Foundation, Inc. (Foundation):

1. Several disbursements tested did not contain adequate supporting documentation, or the supporting documentation was not properly itemized. There were also disbursements that lacked contractual terms of agreement with all parties involved. Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.
2. There were several disbursements for meal reimbursement that contained alcohol. There were also meal reimbursements for multiple people on an individual receipt without adequate supporting documentation of the purpose of the outing and those in attendance.
3. Reimbursements for travel were made without address locations being provided, therefore the amount of the reimbursement could not be verified.
4. The Foundation did not have a written policy outlining the guidelines for reimbursement of travel related expenses. Additionally, we noted that the form being used for travel reimbursements has not been approved by the Indiana State Board of Accounts.
5. The Foundation did not maintain all versions of their internal policies relating to disbursements for the period of our examination.

Supporting documentation such as receipts, cancelled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. Documents must be filed in such a manner as to be readily retrievable or otherwise reasonably obtainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An Agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

Indiana Code 5-11-1-2 states in part: "The state board of accounts shall formulate or approve all statements and reports necessary for the internal administration of the office to which the statements and reports pertain."

INDIANA STATE LIBRARY FOUNDATION, INC.
EXAMINATION RESULTS AND COMMENTS
December 31, 2012
(Continued)

INTERNAL CONTROLS OVER RECEIPTS

Our testing of receipts revealed the following deficiencies in the internal control structure at the Indiana State Library Foundation, Inc. (Foundation):

1. The Foundation did not maintain a daily cash log.
2. The Foundation did not issue receipts for all collections received.
3. The Foundation did not record receipt numbers in the journal.
4. The Foundation did not have a written deposit policy in place outlining the requirements for timeliness of deposit. Also, the Foundation did not consistently record the date collections were received; therefore, we were unable to determine timeliness of deposit.
5. The Foundation did not maintain all versions of their internal policies relating to receipts for the period of our examination.

Supporting documentation such as receipts, cancelled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of monies received or disbursed. Documents must be filed in such a manner as to be readily retrievable or otherwise reasonably obtainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

BANK RECONCILIATIONS

The Indiana State Library Foundation, Inc., did not reconcile their bank accounts monthly.

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

ACCOUNTING RECORDS

During the examination period, the Indiana State Library Foundation, Inc. (Foundation), did not maintain a running balance in their journal. The Foundation did not categorize receipts and disbursements in their journal, which would provide an audit trail to the categories being reported in the Foundation's financials.

INDIANA STATE LIBRARY FOUNDATION, INC.
EXAMINATION RESULTS AND COMMENTS
December 31, 2012
(Continued)

Each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview - Guidelines & Policy)

INDIANA STATE LIBRARY FOUNDATION, INC.
EXIT CONFERENCE

The contents of this report were discussed on October 10, 2013, with Jonathan J. Myers, Treasurer; Roberta L. Brooker, State Librarian; Wendy Knapp, Administrator; and Connie Bruder, Associate Director of Public Services. The Official Response has been made a part of this report and may be found on pages 12 and 13. A copy of the examination results and comments were sent on October 17, 2013, by email, to James Corridan, former Administrator.



INDIANA STATE LIBRARY FOUNDATION, INC.
Dr. Robert G. Barcus, President

140 North Senate Avenue
Indianapolis, IN 46204
Phone: (317) 232-3675
www.islffoundation.org

October 21, 2013

Mr. Matthew Stone
Indiana State Board of Accounts
302 West Washington Street
Indianapolis, IN 46202

RE: Official Response

Dear Mr. Stone:

Thank you for taking the time to meet with me (by telephone) and members of the Indiana State Library staff on October 10, 2013 to present us with the Examination Results and Comments from your review of the operations of the Indiana State Library Foundation, Inc. (the "Foundation"). I presented your preliminary comments to the full board of directors at our meeting on October 11, 2013 and have reserved time on the agenda of our December 13, 2013 meeting to discuss your final report. This letter is our official response to your Examination Results and Comments and we would ask that a copy of this letter be included as a part of your final report.

We begin by noting that Indiana State Library Foundation, Inc. was created by an act of the Indiana General Assembly, effective July 1, 2011 and codified at IC 4-23-7.1-42. The initial board of directors was not appointed by Governor Daniels until late 2011 and did not hold its initial meeting until January 9, 2012. As such, the Foundation's board of directors spent much of 2012 developing, adopting and implementing the policies of the Foundation. We would like to note that although your report covers all of calendar year 2012, custody of the private funds held by the State of Indiana was not transferred to the Foundation pursuant to IC 4-23-7.1-42 until July 25, 2012.

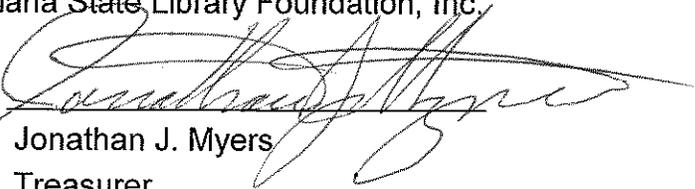
When we met to discuss the preliminary results of your examination, you wanted to make certain that the Foundation had developed a written investment policy governing the investment of the funds entrusted to it. As we discussed, the Foundation adopted a written investment policy at its meeting on August 17, 2012 and we would like to confirm that the policy was in place prior to the investment of the funds that we received on July

25, 2012. We provided you with a copy of the Foundation's investment policy after our meeting on October 10, 2013. Based upon our subsequent discussions and review of the additional documentation, you felt that our explanation adequately addressed your concerns and would probably not be an issue identified in your final report. However, since this was initially noted as a concern, we felt it was important to clarify how and when the matter had been addressed. Please let us know if you would like for us to provide you with a copy of the board resolution and policy for inclusion in your final report.

The Foundation has continued to develop, adopt and implement policies and procedures to ensure best practices for the handling of the private funds entrusted to it for the purpose of supporting the Indiana State Library and the libraries in the State of Indiana. We have already addressed a number of issues in 2013, that you have identified for your examination period ending December 31, 2012, and we will review and address any concerns and recommendations provided in your final report. We appreciate your guidance and assistance, as we have worked to set up and manage the Foundation in accordance with the minimal statutory guidance provided by the General Assembly. Please do not hesitate to contact me or any other board members of the Foundation with any further questions or comments. I can be reached at my office at 260-455-3237, on my cell phone at 260-249-0041 or by e-mail at jon.myers@lfg.com.

Sincerely,

Indiana State Library Foundation, Inc.

By: 

Jonathan J. Myers
Treasurer