

TO: ALA Executive Board

DATE: October 24, 2013

RE: Director of Financial Reporting and Compliance Report

ACTION REQUESTED/INFORMATION REPORT:

Status report

CONTACT PERSON:

L. Denise Moritz, Director of Financial Reporting and Compliance, 312-280-5834

BACKGROUND:

This report highlights the following:

- *Form 5500*
- *403(b) audit*
- *Audit for the fiscal year ended August 31, 2013*
  - Δ *Impairment testing*
  - Δ *Actuarial analysis*
  - Δ *Inventory observation*
- *Internal control*
- *Change management policy*
- *Cash flow projections*
- *Endowment Fund settlement*
- *Bill Payment Process (BPP) SharePoint*
- *New accounts receivable procedures*
- *Staff changes*
- *Budget process for 2015*

## Report of the Director of Financial Reporting and Compliance

Form 5500 filings for the calendar year ended December 31, 2012

- △ Form 5500 filings were filed with the Internal Revenue Service on July 18, 2013 and October 9, 2013.
- △ A SPD (Summary Plan Description) wrap was implemented for the 2012 filing in order to reduce cost and increase efficiency. The returns required to be filed was reduced from six to two.

403(b) audit

The management representation letter for the audit for the year ended December 31, 2012 has been signed and fieldwork has been completed. Final audit reports were delivered on September 27, 2013.

**Action: The Finance & Audit Committee recommends to the Executive Board acceptance of the 403(b) audit for the 2012 retirement plan year.**

Audit for fiscal year ended August 31, 2013

- △ Impairment testing  
After initial discussions, it was determined that the best timing for the performance of the valuation work would be September and October 2013 as the last fiscal quarter is the most significant quarter for the Neal Schuman business segment, in terms of revenue production. However actual results show revenue for the last fiscal quarter of 2013 represented 24% of total Neal Schuman revenue for the fiscal year 2013 (compared to 25% for 2012, based on eight months of revenue).

Internal meetings and discussions were held over the Summer of 2013 between the Publishing and Finance Departments. The collaboration between the two departments resulted in an updated business plan for Neal Schuman which was sent to Plante Moran in September 2013.

Plante Moran began testing the underlying assumptions and had raised questions. ALA management is currently addressing these questions and providing additional information.

Consideration is being given to goodwill impairment and the possible write down of intangible assets related to Neal Schuman, specifically distribution lists related to Chandos.

The valuation work will be tightly coordinated between our valuation specialists at Plante Moran and ALA's financial statement auditors at Mueller & Co., LLP.

Preliminary results of the valuation work will be shared with the Finance and Audit Committee and the Executive Board in October 2013 with a November follow-up teleconference to share final results of the valuation work.

## Audit for fiscal year ended August 31, 2013 (continued)

### Δ Actuarial analysis

The initial audit planning meeting was held on June 10, 2013 with the actuary and auditors. Assumptions to be used in the calculation of the post-retirement benefit obligation were discussed. The yield curve analysis as of May 31, 2013 produced a discount rate of 4.5%. The yield curve analysis was calculated again at August 31, 2013, by ALA's actuary resulting in a 5% discount rate which will be used for fiscal year-end calculations. The estimated decrease in ALA's post-retirement obligations is between \$400,000 - \$600,000.

### Δ Inventory observation

Book inventory was counted by PBD the week of August 26, 2013, which is consistent with the timing of the prior year's inventory count. Staff from our independent accounting firm and ALA staff were on site on August 29, 2013, to perform test counts. The final inventory value at August 31, 2013 was \$2,352,452.

## Internal Control

### Δ Accounts Payable Improvement Status

#### ▪ Internal Review

A sample of July 2013 transactions originating in SharePoint were selected, resulting in a sample size of 37 cash disbursements.

Initial results are positive and also identify opportunities where improvements can be made. Of the disbursements tested to date, there was 100% compliance with the following attributes:

- appropriate and required approvals
- necessary documentation to support the disbursement
- accuracy of account coding

Improvement is needed in the area of timeliness of payment. ALA's Financial Systems Analyst has developed a tool to identify Check Requests that have had no action within the prior two weeks. Email reminders are sent to the requestor/approver in an effort to move through the approval process and pay invoices on a more timely basis.

## Change Management

In order to control changes introduced into SharePoint, the Finance Department has developed a Change Management Document that will be used for all changes recommended for the SharePoint test server. This document will allow for the monitoring of changes, require approval before changes are made and require the requestor to sign off for acceptance of the change. Before changes are moved to the production environment, they will be tested, validated and accepted.

Staff will continue to work toward the identification of opportunities where elements of Change Management can be incorporated into ALA's current business practices with its existing resources.

#### Cash Flow Projections

Monthly cash flow projections were prepared for fiscal year ended August 31, 2013. Monthly or quarterly cash flow projections for the fiscal year ending August 31, 2014 will be prepared over the next two to three months. The goal is to better estimate ALA's monthly cash needs and better manage the line of credit and cash flow.

#### Endowment Fund settlement

In October 2013, \$396,351 was transferred from the Endowment Fund investment account to ALA's Operating bank account. In accordance with a recently developed Liquidity Outlook Plan, we are preparing for scholarship distributions and avoiding situations where we would need to liquidate investments quickly and/or on less favorable terms. In addition at the September 2013 meeting, the Endowment Trustees made the decision to true up the Due to/from account on a quarterly basis.

#### Bill Payment Process (BPP) SharePoint

A test server has been set up and is ready for use. The test server is necessary to implement upgrades and will allow ALA to minimize disruption to the production environment and properly test changes. One of the initial objectives is to change the Check Request workflow in order to streamline the approval process. Once comfort is established with the use of the test server, discussions will continue with Phase II upgrades.

#### New Accounts Receivable Procedures

Beginning in May of 2013, ALA requested and began receiving a weekly report from PBD showing payments that PBD is unable to identify. ALA staff are reviewing the report to identify the customer's account where payment should be applied. These new procedures allow ALA to more quickly identify payments and deposit funds in ALA's bank account, prevent the return of funds to customers when the funds belong to ALA and reduce confusion in business dealings between the customer and ALA.

#### Staff Changes

Due to budget cuts, the Finance and Accounting Department has recently eliminated the Manager of Financial Reporting position and converted one salaried full-time employee to a salaried part-time employee.

In addition the Director of Planning & Budgeting has recently announced her retirement, effective January 1, 2014. Current staff resources are being reallocated to handle the shift in work.

#### Budget process for 2015

For the past 14-15 years, budgets have been prepared by ALA's Units, Departments and Divisions using Microsoft Excel. A major change will take place with the 2015 budget process. The budgets will be prepared in Prophix, using the software's budget templates.

#### Budget process for 2015 (continued)

Members of ALA's Finance Department met with our outside consultants on October 10, 2013, to discuss the implementation timeline as well as additional software and training needed.