



LIBRARY OF
CONGRESS

Performance Audit of the NDIIPP Cooperative
Agreement with North Carolina State University
Performance Audit Report

December 8, 2010

**KEARNEY &
COMPANY**

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UNITED STATES GOVERNMENT

Memorandum

Office of the Inspector General

LIBRARY OF
CONGRESS

TO: Laura E. Campbell
Associate Librarian for Strategic Initiatives

February 22, 2011

FROM: Karl W. Schornagel
Inspector General

A handwritten signature in black ink, appearing to read 'Karl Schornagel'.

SUBJECT: Audit of the NDIIPP Cooperative Agreement
with North Carolina State University

We contracted with the independent certified public accounting firm of Kearney & Company (Kearney) to conduct an audit of the Library's National Digital Information Infrastructure and Preservation Program (NDIIPP) Cooperative Agreement with North Carolina State University (NCSU). The objective of the audit was to determine compliance with relevant Federal and University guidance and the terms of the Cooperative Agreement. Specifically, Kearney evaluated the design and operating effectiveness of internal controls, assessed expenditures for grant compliance, and assessed the accuracy and validity of reporting to the Library. The contract required that the audit be performed in accordance with generally accepted government auditing standards (GAGAS).

The scope of the audit included obtaining an understanding of the policies, requirements, and processes of selected risk areas (salaries and wages, equipment, other direct costs, and indirect costs) to identify key internal controls. During the audit Kearney applied internal control compliance and substantive testing procedures to the selected risk areas for expenses reported to the Library through December 31, 2009. The attached report presents the results of their audit for the period ended December 31, 2009.

In its audit of NCSU, Kearney found that internal controls were designed effectively, grant expenditures were in compliance with grant terms and conditions, and quarterly and annual reporting was accurate, valid, and in accordance with the Cooperative Agreement, except for the following, which did not affect the opinion as a whole:

- financial status forms 269a and 272 were not submitted timely;
- other direct costs were incorrectly reported as contract costs in the amounts of \$5,783 in the third quarter of year two of the agreement and \$20,158 in the fourth quarter of year three;
- a purchase order in the amount of \$4,958 was not approved by the Director of Finance and Administration; and
- the cost sharing requirement was under matched in the amount of \$270,462 by NCSU.

In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on NCSU's compliance with grant terms, the accuracy and validity of its quarterly and annual reporting in accordance with the Cooperative Agreement, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws and regulations. Kearney is responsible for the attached auditor's report dated December 8, 2010, and the conclusions expressed in the report. However, our review disclosed no instances where Kearney did not comply, in all material respects, with U.S. generally accepted government auditing standards.

cc: Chief, Support Operations
Supervisory Grants Management Officer
Director, NDIIPP Program Management
Chief Financial Officer

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EXECUTIVE SUMMARY

Kearney & Company, P.C. (Kearney) was retained by the Library of Congress (the Library) to conduct a performance audit of the Library's Cooperative Agreement with North Carolina State University (NCSU) (Contract #GA06G0031). Kearney executed the performance audit in accordance with generally accepted government auditing standards (GAGAS) for performance audits, as prescribed in the most current version of *Government Auditing Standards* (Yellow Book) issued by the Comptroller General of the United States.

BACKGROUND

The Library, an agency in the Legislative Branch of the Federal Government, is the world's largest and most comprehensive library, maintaining a collection of more than 142 million items—many of them unique and irreplaceable—in more than 470 languages. The Library's mission is to make its resources available and useful to Congress and the American people, and sustain and preserve a universal collection of knowledge and creativity for future generations.

In 2000, the Library embarked on a mission to preserve digital cultural assets and make its collections more publically available through the internet. During the same year, the Library established the Office of Strategic Initiatives (OSI) to oversee this transition. Specifically, OSI is tasked with:

- Consolidating the Library's future digital goals
- Integrating the delivery of information technology (IT)
- Overseeing a national approach to digital preservation under the National Digital Information Infrastructure and Preservation Program (NDIIPP).

Through NDIIPP, the Library has undertaken an effort to preserve historically significant content and capture digital content that is at risk of disappearing.

To accomplish this undertaking, the Library established a network with other Federal, research, non-profit, philanthropic, library, and business organizations to select, collect, and organize historically significant materials and information resources to provide for the long-term storage, preservation, and authenticity of collected materials, and provide public access to the digital heritage of the American people.

OBJECTIVES

Kearney was engaged to audit selected NDIIPP Cooperative Agreement recipients to determine if financial reporting and data quality applications were in compliance with relevant Federal and University guidance, and the Cooperative Agreement. The primary objectives of the audit were to:

- Evaluate the design and operating effectiveness of internal controls for processes designated as risk areas
- Assess expenditures for compliance with grant terms and conditions for processes designated as risk areas
- Assess the accuracy and validity of quarterly and annual reporting in accordance with the Cooperative Agreement.

SCOPE

As part of its NDIIPP effort, the Library entered into a Cooperative Agreement on September 12, 2004 with NCSU in the amount of \$1,031,766. The Agreement’s period of performance was amended to end on February 28, 2010. The objective of the Agreement was to focus on the collection and preservation of digital geospatial data resources from state and local government agencies in North Carolina.

Kearney’s audit included obtaining an understanding of the policies, requirements, and processes of selected risk areas in order to identify key internal controls. The scope of the review included expenses reported to the Library through December 31, 2009. Additionally, Kearney applied select internal control, compliance, and substantive testing procedures for the following risk areas:

- Salaries and wages
- Equipment
- Other direct costs
- Indirect costs.

Risk areas were defined as total expense categories as identified in the chart below:

Table 1 – Analysis of Costs

Cost Category	Cumulative Actual Expenses (Library Portion)**	Percentage of Total Cost Paid by the Library	Risk Area
Salaries and Wages	\$246,040	26.21%	Yes
Fringe Benefits	\$59,302	6.32%	No
Travel	\$48,302	5.15%	No
Equipment	\$118,818	12.66%	Yes
Materials and Supplies	\$9,574	1.02%	No
Contracts	\$25,941	2.76%	No

Cost Category	Cumulative Actual Expenses (Library Portion)**	Percentage of Total Cost Paid by the Library	Risk Area
Other Direct Costs	\$329,717	35.13%	Yes
Indirect Costs	\$100,975	10.76%	Yes

**Amounts are the actual expenses reported to the Library through Year 5, September 30, 2009.

The source of Kearney’s testing populations was the expense ledger provided by NCSU. The Financial Status Reports (FSR) and the Budget to Actual Spreadsheets were provided by OSI. Evidence was primarily provided by NCSU in soft and hard copy formats. Kearney conducted this performance audit from March 2010 through December 2010, including a site visit to NCSU during the week of May 17, 2010.

Kearney identified the financial systems used during the receipt and execution of the Library grant. During walkthroughs of the systems, Kearney noted no instances of noncompliance of NCSU’s financial management system with the requirements set forth in Office of Management and Budget (OMB) Circular A-110. No additional IT controls were tested as a part of this audit.

Kearney did not review the Automated Standard Application for Payments (ASAP) system information or cost sharing information with the intent of testing controls. For ASAP, Kearney substantively reviewed the drawdowns to ensure they matched the amounts authorized by the Library. Kearney relied on the Department of the Treasury (Treasury), Financial Management Service’s (FMS) controls to ensure only authorized individuals had access to draw on grant funds. Cost sharing was reviewed for informational purposes, as Kearney only tested the cost sharing information to ensure the matching ratio was consistent with the Cooperative Agreement.

METHODOLOGY

Kearney conducted this performance audit in accordance with GAGAS for performance audits, as prescribed in the most current version of the Yellow Book issued by the Comptroller General of the United States. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. As a basis for Kearney’s performance audit, the audit team used the Cooperative Agreement; OMB Circular A-21, *Cost Principles for Educational Institutions*; OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* to determine whether NCSU was in compliance with the Cooperative Agreement.

To meet the performance audit objectives, the audit team specifically:

- Obtained an understanding of NCSU’s financial reporting, information systems, salary and wage expenses, equipment, other direct costs, and indirect costs processes related to

the grant by obtaining and reviewing applicable laws, regulations, and contract documents; conducting interviews and discussions with key personnel; and reviewing transactional-level documentation. Further, Kearney confirmed its understanding of the processes and documented key controls for the selected processes through the completion of walkthroughs. These procedures are the basis for evaluating the design and operating effectiveness of internal controls for processes designated as risk areas

- Tested expenditures for compliance with grant terms and conditions for processes designated as risk areas. Testing included the validation of expense populations, selection of samples, and review of supporting documentation for each sample to ensure validity and compliance with contract requirements and select key controls
- Assessed the accuracy and validity of quarterly and annual reporting in accordance with the Cooperative Agreement through a reconciliation of the grantee expense detail to the amounts reported on the FSRs, review of the submission dates for all FSRs, recalculation of cost sharing totals, and review of NCSU draws made via ASAP
- Verified that NCSU's financial management systems supported the following items, which are required by OMB Circular A-110:
 - Records that identify adequately the source and application of funds for federally-sponsored activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest
 - Adequate safeguards of all assets and assurance that they are used solely for authorized purposes
 - Comparison of outlays with budget amounts for each award. Whenever appropriate, financial information should be related to performance and unit cost data
 - Written procedures for determining the reasonableness, ability for allocation, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award
 - Accounting records, including cost accounting records that are supported by source documentation.

AUDIT RESULTS

When conducting the performance audit, Kearney gathered sufficient evidential matter to support its findings and conclusions. All findings were documented in formal Notifications of Finding and Recommendation (NFR), to include the condition, criteria, cause, effect, and recommendation for each, and were submitted to NCSU management for review and comments. The condition, recommendation, management response, and auditor response (if applicable) is provided for each finding in Appendix A of this report. Kearney summarized the findings identified while conducting the audit; the following is a listing of findings discovered as a result of testing:

1. Forms 269a and 272 were Not Submitted Timely
2. Budget to Actual Spreadsheet Error in Other Direct Costs Total
3. Purchase Order was Not Signed by the Director of Finance and Administration
4. Cost Sharing Requirement May Not Be Met by North Carolina State University.

Kearney concludes that internal controls are designed effectively for the processes designated as risk areas, grant expenditures are in compliance with grant terms and conditions for processes designated as risk areas, and quarterly and annual reporting is accurate and valid, and in accordance with the Cooperative Agreement, except for the instances listed above and further described in Appendix A.

* * * * *

This report is intended solely for the information and use of Library management, those charged with governance and others within the Library, the Inspector General of the Library, OMB, the Government Accountability Office, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



December 8, 2010

APPENDIX A – FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. Forms 269a and 272 were Not Submitted Timely

The Cooperative Agreement between the Library of Congress (the Library) and North Carolina State University (NCSU) requires that Financial Status Reports (FSR) be submitted no more than 45 days after the end of each quarter during the period of performance. Kearney & Company, P.C. (Kearney) reviewed FSR Forms 269a and 272 submissions and noted that 10 of 40 required submissions tested were submitted after the required due dates. Kearney noted that the 10 forms were completed one to 77 days after the required deadline.

The table below provides information on the number of days over the deadline for each FSR that was not submitted timely.

	<u>Form 269a</u>	<u>Form 272</u>
<u>Year 3</u>		
Qtr 1	1 day	1 day
Qtr 3	1 day	1 day
Qtr 4	1 day	1 day
<u>Year 4</u>		
Qtr 1	1 day	1 day
Qtr 4	77 days	On Time
<u>Year 5</u>		
Qtr 4	2 days	On Time

Recommendation:

Kearney recommends that NCSU management ensure that FSRs are completed within the amount of days specified in the Cooperative Agreement.

Management Response:

Management does not concur with the finding and recommendation.

Each reporting period the new spreadsheet would be provided by the Library of Congress for completion along with the dues dates of the reports. The reports cited in the finding above as being 1 day overdue (Year 3, Quarter 1, 3, and 4) were turned in by the due date provide in the e-mail with the spreadsheet. Since NCSU did not produce the spreadsheet we could not submit the reports until we received the spreadsheets from the Library of Congress, because everything had to be submitted as a package. There was a change in personnel at the Library of Congress during Year 3 Quarter 1, which resulted in a delay of the Library of Congress providing the spreadsheet to NCSU for completion. The spreadsheet was not provided until 2/15/10. In reference to the report that was 77 days late (Year 4, Quarter 4) there was a change in personnel at the Library of

Congress, so NCSU was notified until after the report was overdue. Again since the spreadsheet to be complete was to be provided by the Library of Congress there was not a spreadsheet or due date notification as in every previous periods. NCSU had attempted to contact Rachel, but she was no longer in charge of receiving the reports and did not respond until 2/29/2009 that she was no longer in charge of NCSU's project.

The last report for Year 5 Quarter 4 that reflects 2 days overdue was submitted via e-mail on 11/16/2009, which would have been 1 day overdue.

Auditor Response:

Kearney continues to encourage NCSU to communicate and work through reporting issues with the Library.

2. *Budget to Actual Spreadsheet Error in Other Direct Costs Total*

During testing, Kearney & Company, P.C. (Kearney) noted that \$5,783 of "other direct" costs were incorrectly categorized as "contract" costs on the Budget to Actual Spreadsheet in Year 2, Quarter 3. Kearney also noted that \$20,158 of "other direct" costs were incorrectly categorized as "contract" costs on the Budget to Actual Spreadsheet in Year 3, Quarter 4.

Recommendation:

Kearney notes that as of September 30, 2009, the Library of Congress (the Library) no longer requires the Budget to Actual Spreadsheet to be submitted by National Digital Information Infrastructure and Preservation Program (NDIIPP) grantees; therefore, no specific recommendations are necessary. In general, Kearney suggests that North Carolina State University (NCSU) review its controls over reporting to ensure submissions are in accordance with Government requirements, and sufficient controls are designed and operating effectively over reporting processes.

Management Response:

Management does not concur with the finding and recommendation.

The spreadsheets in question were provided by the awardee and NCSU had limited access to the spreadsheet to meet the reporting date. In the finding above these were costs for contracted services not a subcontract and there was not an option for that spreadsheet other than contract. The entries had to conformed to the spreadsheet by entering information that was included in the agreement with Library of Congress. In your criteria it states "According NDIIPP Preservation Partner (DPP) Budget Report Process issued by the Library of Congress (the Library), North Carolina State University is to populate the Budget to Actual Spreadsheet with actual amounts for 'contract' costs and 'other direct' costs." This indicated that contract cost is an allowable budget line for us, and contract services are the expenses in the contract line. Once NCSU was notified this was not how Library of Congress wanted this information changed the changes were made, resubmitted, and accepted by the Library of Congress.

Auditor Response:

NCSU should continue to strengthen the control and review of contractual reporting submissions for accuracy and completeness, recognizing that reporting deadlines are often stringent. Further, NCSU should continue to engage with grantor agency personnel for any questions, comments, or concerns regarding the requirements imposed by the Cooperative Agreement.

3. *Purchase Order was Not Signed by the Director of Finance and Administration*

North Carolina State University (NCSU) policy requires that Purchase Orders be approved by the Division Head, the Associate Director of Digital Library, and the Director of Finance and Administration. During testing, Kearney & Company, P.C. (Kearney) noted that one of 15 Purchase Order samples did not have proper requisition approval. Purchase Order number AP00282483 for \$4,957.50 was not signed by the Director of Finance and Administration.

Recommendation:

Kearney recommends that NCSU be more diligent in getting each Purchase Order signed by the Division Head, the Associate Director of Digital Library, and the Director of Finance and Administration. Kearney also recommends that NCSU periodically provide refresher information e-mails to help ensure that employees are following proper procedures.

Management Response:

Management does not concur with the finding and recommendation.

In this finding the sample Kearney & Company, P.C. (Kearney) used did not match the condition being testing. The condition stated, “North Carolina State University policy requires approval from the Division Head, the Associate Director of Digital Library, and the Director of Finance and Administration on Purchase Orders. During testing, Kearney & Company, P.C. (Kearney) noted that one of the 15 samples did not proper requisition approval. Purchase Order number AP00282483 for \$4,957.50 was not signed by the Director of Finance and Administration.” The item Kearney selected was not a Purchase Order it was a voucher. It is not clear how this would be a finding if the sample does not match the condition being test in the review. NCSU has separate procedure for Purchase Orders and Vouchers. In a follow up call with the NCSU Library, NCSU Contracts and Grants office verified that the Director of Finance and Administration was not required to approve vouchers.

Auditor Response:

During fieldwork, Kearney followed up with its point of contact at NCSU regarding the missing signature. In an e-mail to Kearney dated August 19, 2010, Kearney’s NCSU audit contact stated in response to the missing signature, “According to the Library, there is no explanation. This was simply an oversight on their part.” (In this instance, “Library” refers to the NCSU Library.)

This communication was provided to NCSU based on the discussions during the Exit Conference.

4. Cost Sharing Requirement May Not Be Met by North Carolina State University

The Cooperative Agreement between the Library of Congress (the Library) and North Carolina State University (NCSU) requires that Federal funding be matched on a 1:1 basis. Kearney & Company, P.C. (Kearney) tested the 1:1 cost sharing requirement during the life of the Agreement, and as of September 30, 2009, NCSU's share of resource contributions was \$668,208 and the Federal share was \$938,670, with a difference of \$270,462.

Recommendation:

Kearney recommends that going forward, NCSU should inquire about the timing of the 1:1 match when entering into Cooperative Agreements.

Management Response:

Management does not concur with the finding and recommendation.

According to the award granted to North Carolina State University (NCSU) B.4.1 of the Cooperative Agreement IT states: "Compliance with the terms of the Agreement requires Federal funding from the Library (the 'Federal Share') be matched on a 1:1 basis by resource contributions from Awardee (the 'Awardee Share')." It does not state in this section that the 1:1 match is a requirement during the life of the Agreement. The cost share included equipment, supplies, and third party, which cannot be claimed until the equipment and supplies are purchased or the third party has provided the appropriate documentation for the cost share. NCSU handles numerous awards and is proficient at reviewing the awards to meet the cost sharing commitments. If the sponsor wanted a 1:1 match during the life of the project they need to include that in the agreement. Furthermore A-133 Article 6.1.2 – Funding and Audit Federal share, once again indicates the 1:1 match, but no requirement for the cost share to be a 1:1 during the life of the project, just on the project total. The final report for cost share match submitted by NCSU exceeded the cost share commitment for the entire project.

Auditor Response:

While the Cooperative Agreement does not explicitly state that the 1:1 matching requirement should occur over the life of the agreement, it does not limit the cost sharing to being compliant only at the close of the contract. Without explicit procedures and controls to monitor the timing of cost sharing expenses throughout the life of the grant or Cooperative Agreement, NCSU runs the risk of being noncompliant with cost sharing provisions at the close of the award. Kearney still recommends that NCSU work with the Library to gain a better understanding of the timing of the 1:1 cost sharing provision.