



LIBRARY OF
CONGRESS

Performance Audit of the NDIIPP Cooperative
Agreement with the University of California – Santa
Barbara
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 the University of California – Santa Barbara

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 the University of California – Santa Barbara (UCSB). 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, contracts, 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 UCSB, 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 items, which did not affect the opinion as a whole:

- \$306,920 of contract expenses were incorrectly classified as other direct costs during the period September 1, 2006 through June 30, 2007;
- financial status forms 269a and 272 were not submitted timely; and
- the university had a lack of documented policies and procedures for grant monitoring.

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 UCSB'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 the University of California – Santa Barbara (UCSB) (Contract #GA06C0040). 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 30, 2004 with UCSB in the amount of \$3,546,796. The Agreement’s period of performance was amended to end on December 31, 2009. The objective of the Agreement was to collect digital materials across the spectrum of cartographic history from colonial maps to satellite imagery.

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
- Contracts
- 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	\$554,822	18.55%	Yes
Fringe Benefits	\$179,854	6.02%	No
Travel	\$125,847	4.21%	No
Materials and Supplies	\$689	0.02%	No
Contracts	\$1,519,954	50.83%	Yes
Other Direct Costs	\$306,920	10.26%	Yes

Indirect Costs	\$302,398	10.11%	Yes
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**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 UCSB. The Financial Status Reports (FSR) and the Budget to Actual Spreadsheets were provided by OSI. Evidence was primarily provided by UCSB in soft and hard copy formats. Kearney conducted this performance audit from March 2010 through December 2010, including a site visit to UCSB during the week of May 31, 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 UCSB’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 UCSB was in compliance with the Cooperative Agreement.

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

- Obtained an understanding of UCSB’s financial reporting, information systems, salary and wage expenses, contracts, 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 UCSB draws made via ASAP
- Verified that UCSB’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 UCSB 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. Incorrect Classification of Expenses as Other Direct Costs
2. Forms 269a and 272 were Not Submitted Timely
3. Lack of Policies and Procedures.

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. *Incorrect Classification of Expenses as Other Direct Costs*

During testing, Kearney & Company, P.C. (Kearney) noted \$306,920 of “contracts” expenses were incorrectly categorized as “other direct” costs on the Budget to Actual Spreadsheet for the time period of September 1, 2006 through June 30, 2007.

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 the University of California – Santa Barbara (UCSB) 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:

UCSB management concurs with the finding and recommendation.

2. *Forms 269a and 272 were Not Submitted Timely*

The Cooperative Agreement between the Library of Congress (the Library) and the University of California – Santa Barbara (UCSB) 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 the following:

- 24 of 40 required submissions tested were submitted after the required due dates; Kearney noted the forms were completed six to 211 days after the required deadline
- One of 40 required submissions tested was not dated; therefore, submission timeliness could not be determined.

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 1</u>		
Qtr 3	37 days	38 days
Qtr 4	84 days	85 days
<u>Year 2</u>		
Qtr 4	31 days	32 days

Year 3

Qtr 1	203 days	211 days
Qtr 2	113 days	121 days
Qtr 3	22 days	30 days
Qtr 4	120 days	120 days

Year 4

Qtr 1	159 days	159 days
Qtr 2	68 days	68 days
Qtr 4	139 days	139 days

Year 5

Qtr 1	47 days	46 days
Qtr 2	6 days	On Time
Qtr 4	66 days	No Date

Recommendation:

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

Management Response:

UCSB management concurs with the finding and recommendation.

The Annual Financial Reports serve as the fourth quarter reports which are due 120 days after each fourth quarter per section B.3.4 of the Cooperative Agreement not 45 days as stipulated in the Criteria. The detail cost share data is typically not required by other federal agencies which required additional time for the proper department to prepare and complete the reports. The institution is enhancing business practices to ensure timeliness due to this requirement.

3. *Lack of Procedures*

When conducting the audit, Kearney & Company, P.C. (Kearney) was unable to determine the procedures and processes in place prior to May 2009 due to a lack of documented procedures.

Recommendation:

Kearney recommends that the University of California – Santa Barbara (UCSB) document standardized procedures for grant monitoring rather than leaving procedures for grants at the discretion of the Institute for Computational Earth System Science (ICESS). This would provide conformity across UCSB and reduce issues if grant responsibilities transfer within UCSB.

Management Response:

UCSB management concurs with the finding and recommendation.

University of California (UC) has extensive policies regarding management of contracts and grants (e.g. <http://www.ucop.edu/raohome/cgmanual/>). Each department within UCSB is required to establish procedures that follow these and other UC policies. While standardization of processes and procedures within some institutions may be possible, UCSB has departments of varying size and structure, requiring that procedures for each department be modified to fit the particular structure of that department, while also remaining in policy. The project was administered within UC policy and managed by UCSB Library as a department. The procedures and processes for grant monitoring were in place within the UCSB Library, but due to a 100% turnover of the [UCSB] Library staff managing the grant, we were not able to locate written copies of these procedures. Information relating to the ICES procedures was provided to the auditors during the UCSB visit.