



LIBRARY OF
CONGRESS

Performance Audit of the NDIIPP Cooperative
Agreement with the University of Maryland
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 Maryland

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 Maryland (UMD). 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, 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 March 31, 2010. The attached report presents the results of this audit for the period ended March 31, 2010.

In its audit of UMD, 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:

- financial status forms 269a and 272 were not submitted timely;
- a \$3,750 contract expense variance was under reported to the Library as of September 30, 2009;
- two expense errors were found for data reported to the Library, \$14,420 of contract expenses were incorrectly categorized as salary expenses for the quarter ended June 2005 and a credit adjustment of \$2,353 was incorrectly included as other direct costs for the quarter ended March 2008;
- a coding error of \$2,370 was found on form 269a for the period ending December 2007;
- timesheets were not always approved as required by procedures;
- errors were found in documented approvals of vendor invoices; and
- indirect costs reported to the Library were overstated by \$2,656.

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 UMD'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 Maryland (UMD) (Contract #GA06C0007). 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 1, 2004 with UMD in the amount of \$1,056,610. The Agreement’s period of performance was amended to end on September 30, 2010. The objective of the Agreement was to preserve at-risk digital traces of American venture creation and its associated business culture during the Dot-Com Era.

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 March 31, 2010. Additionally, Kearney applied select internal control, compliance, and substantive testing procedures for the following risk areas:

- Salaries and Wages
- Contracts
- 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	\$251,164	30%	Yes
Fringe Benefits	\$39,247	5%	No
Travel	\$40,657	5%	No
Equipment	\$0	0%	No
Contracts	\$286,443	35%	Yes
Other Direct Costs	\$11,592	1%	No
Indirect Costs	\$200,853	24%	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 UMD. The Financial Status Reports (FSR) and the Budget to Actual Spreadsheets were provided by OSI. Evidence was primarily provided by UMD in soft and hard copy formats. Kearney conducted this performance audit from March 2010 through December 2010, including a site visit to UMD during the week of May 10, 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 UMD'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 UMD was in compliance with the Cooperative Agreement.

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

- Obtained an understanding of UMD's financial reporting, information systems, salary and wage expenses, contracts, 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 UMD draws made via ASAP
- Verified that UMD'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 UMD 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. Contract Population Does Not Tie to Budget Spreadsheet
3. Salary Population Does Not Tie to Budget Spreadsheet
4. Coding Error of Expenses Made by University of Maryland (UMD) Management
5. Timesheet Not Signed by Principal Investigator (PI)
6. E-mail Approval by PI Could Not be Traced to Invoice
7. Calculation of Indirect Costs is Incorrect.

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 the University of Maryland (UMD) requires that Financial Status Reports (FSR) be submitted no more than 45 days after the end of each quarter during the Period of Performance. While reviewing the FSR Forms 269a and 272 submissions, Kearney & Company, P.C. (Kearney) noted that five of 40 required submissions were submitted after the required due dates; the forms were completed 14 to 133 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 1</u>		
Qtr 1	133 days	On Time
Qtr 2	47 days	On Time
<u>Year 3</u>		
Qtr 3	116 days	On Time
Qtr 4	25 days	On Time
<u>Year 4</u>		
Qtr 1	103 days	On Time
Qtr 2	14 days	On Time

Recommendation:

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

Management Response:

Management concurs with the finding, but not the recommendation.

The University agrees with the finding, but not the recommendation. It is noted that the auditors did a 100% audit of the required reports. The late filing of reports was known by management indicating that the system of controls was working. The failure to report timely is the direct result of the delay in subcontractors providing cost sharing information to UMD. UMD will redouble its effort to acquire cost sharing information from the subcontractors in a timely manner.

Auditor Response:

The University should continue to employ internal controls and mechanisms needed to submit required reporting information to the Library in a timely manner. While timely reporting may have been impeded by subcontractor reporting, it is the University's contractual requirement to report within the timeframes provided by the Library. As discussed in the University's response, if efforts to acquire cost sharing information from the subcontractors do not result in any improvements, the University should consider whether to continue with those subcontractor relationships or work with the Library to obtain its support in gathering this information.

2. *Contract Population Does Not Tie to Budget Spreadsheet*

The total contract expense population provided by University of Maryland (UMD) management totaled \$290,193 through September 30, 2009. The total contract amount reported on the Budget to Actual Spreadsheet was \$286,443 through September 30, 2009. The difference of \$3,750 was misclassified on the Budget to Actual Spreadsheet that was submitted to the Library of Congress (the Library). Kearney & Company, P.C. (Kearney) noted that the total expense population through September 30, 2009 tied to the Budget to Actual Spreadsheet in total. Kearney was unable to identify which cost category included the \$3,750 of contract costs.

Recommendation:

Kearney notes that as of September 30, 2009, 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 UMD management review 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 concurs with the finding and recommendation.

The University agrees with the finding and that "no specific recommendations are necessary." The error was on an ad hoc management report not required under Federal Office of Management and Budget Circular A-110. Since the report requirement was ad hoc, so must be the review process. The University has a strong system of controls designed to operate effectively over the reporting processes for those reports that are required under federal regulations such as OMB A-110. The "Effect" as stated by the Auditor, is that the standard OMB A-110 "Financial Status Report" was accurate and no change was necessary. Also stated in the finding, was that "the Library no longer requires the "Budget to Actual Spreadsheet."

3. *Salary Population Does Not Tie to Budget Spreadsheet*

During testing, Kearney & Company, P.C. (Kearney) noted two quarters in which the amount reported in the Budget to Actual Spreadsheet and expense population did not match.

During the period of April 1, 2005 through June 30, 2005, the University of Maryland (UMD) incorrectly categorized \$14,420 of “contract” expenses as “salary” expenses.

During the period of January 1, 2008 through March 31, 2008, there was a credit adjustment that was incorrectly added on the “other direct” cost category line for \$2,353.

Recommendation:

Kearney notes that as of September 30, 2009, 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 UMD 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 concurs with the finding and recommendation.

The University agrees with the finding and that “no specific recommendations are necessary.” The balance of this response is the same as #2.

4. Coding Error of Expenses Made by University of Maryland (UMD) Management

During testing, Kearney & Company, P.C. (Kearney) noted the amount reported on the Financial Status Report (FSR) Form 269a for the period ending December 31, 2007 totaled \$550,155.69, but the cumulative expense detail provided by UMD for the period ending December 31, 2007 totaled \$547,784.82, which is a difference of \$2,370.87.

Recommendation:

Kearney recommends that UMD correctly code expenses in its system and provide training or refresher e-mails to employees to ensure proper procedures are being followed.

Management Response:

Management concurs with the finding and recommendation.

The University agrees with the finding and the recommendation, but notes that the Auditor made an error in the amount that had been credited to the award. The proper amount of the credit was \$3,081.36. The error was associated with an unusual transaction. A vendor gave the University a credit for services rendered and when posted in the accounting system, the transaction was posted as income instead of negative expense. The error in coding was discovered by the University and corrected within 60 days of the event and three years prior to the review by the Auditors.

5. *Timesheet Not Signed by the Principal Investigator (PI)*

Kearney & Company, P.C. (Kearney) noted that in three of 10 samples, timesheets for hourly employees were missing evidence of the PI's approval.

Recommendation:

Kearney recommends that the University of Maryland (UMD) be more diligent about ensuring each timesheet is reviewed and approved by the PI, and ensuring the approval is evidenced in accordance with UMD internal requirements.

Management Response:

Management does not concur with the finding and recommendation.

The University disagrees with the finding. The University of Maryland's internal requirements do not state that the PI must approve all hourly timesheets. The University system of salary certification is compliant with OMB Circular A-21 and approved by its cognizant agency the Federal Department of Health and Human Services. The University system states, under section #7 "Authorized Signatures" the following: Deans, directors, department chairpersons, and senior faculty [salaried employees] may certify for all personnel. Faculty and associate staff [salaried employees] preferably would sign their own effort reports. Generally speaking, business managers may certify for classified employees [including hourly employees] only.

Auditor Response:

Kearney based testing on the controls that were presented during the walkthroughs. The University did not provide policies or procedures documenting a control structure different from what was presented to Kearney during the walkthroughs.

6. *E-mail Approval by the Principal Investigator (PI) Could Not be Traced to Invoice*

University of Maryland (UMD) internal requirements require approval from the PI on all invoices. Kearney & Company, P.C. (Kearney) noted that three of 20 invoice samples were missing PI approvals during contract expense testing.

UMD provided e-mail approvals as support; however, Kearney was unable to trace the e-mail approvals to particular invoices.

Recommendation:

Kearney recommends that if the PI approves an invoice by e-mail, he/she should include the invoice number, the amount of the invoice, the vendor, and the date of the invoice. Further, Kearney recommends that UMD policy and procedures be updated to include this requirement, and that all PIs are made aware of this requirement.

Management Response:

Management concurs with the finding, but not the recommendation.

The University agrees with the finding, but not the recommendation. The University feels that it has already enhanced the approval process for subrecipients. During the life of this agreement and before the auditors reviewed this award, the University implemented a stronger process for approving invoices from subrecipients that included a “Subrecipient Monitoring Invoice Checklist.”

We will continue our role in providing sponsored research training to the UMD community and will schedule specific subaward classes in the first quarter of the New Year and subrecipient invoice review will be a main topic. We will continue to provide updates on sponsored program trainings and procedural documentation via our listservs and our website.

Auditor Response:

The response provided by the University describes a process improvement that may have already remedied this finding; however, the Subrecipient Monitoring Invoice Checklist was not provided for review to support its application to any of the invoices reviewed during testing. The University should continue to monitor and improve controls surrounding its invoice review, approval, and payment processes.

7. Calculation of Indirect Costs is Incorrect

During testing of indirect costs, Kearney & Company, P.C. (Kearney) noted that the University of Maryland (UMD) reported an indirect cost amount to the Library of Congress (the Library) that was overstated by \$2,656.

Recommendation:

Kearney recommends that UMD include only the first \$25,000 of subcontract costs in its indirect cost calculation per Office of Management and Budget (OMB) guidance.

Management Response:

Management concurs with the finding and recommendation.

The University agrees with the finding and recommendation. This was a coding error. The University has a subcode where the first \$25,000 of each subaward is to be charged and indirect cost is charged on that direct cost. Another subcode is used for the balance of the cost of the subaward. Charges to that subcode are not burdened with indirect cost. An error in coding occurred resulting in the automatic program charging of \$2,656 in indirect cost to the project. The error was discovered by the University and corrected prior to the review by the auditors.