

RIVERSIDE: AUDIT & ADVISORY SERVICES

February 21, 2013

To: Dr. Ruth Jackson
University Librarian, University Library

Subject: University Library

Ref: R2013-11

We have completed our University Library audit in accordance with the UC Riverside Internal Audit Plan. Our report is attached for your review. We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2013-11 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact us.

Michael R. Jenson
Director

xc: Audit Committee
Associate University Librarian for Administrative Services Rios

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2013-11

UNIVERSITY LIBRARY

FEBRUARY 2013

Approved by:

Robin A. Maras
Principal Auditor

Rodolfo Jeturian
Assistant Director

Michael R. Jenson
Director

**UC RIVERSIDE
UNIVERSITY LIBRARY
INTERNAL AUDIT REPORT R2013-11
FEBRUARY 2013**

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the University Library audit, it is our opinion that, overall, internal controls over the operations of the University Library are satisfactory and generally in compliance with applicable University policies and procedures. Specifically, existing procedures and practices related to monitoring, reviewing and approving purchases, travel and entertainment vouchers, inventory management, payroll and leave accounting, and petty cash activities provide reasonable assurance of compliance with University policies and procedures.

However, we observed two areas that need enhancement to strengthen internal controls and/or effect compliance with University policy:

- Inadequate Documentation and Explanations – Travel vouchers lacked sufficient documentation of business purpose/justification and/or sufficient backup documentation to validate expenditures. One employee overpayment was also noted. (Observation III.A)
- Inadequate Review of Recharge Rates and Account Balances – University Library recharge rates had not been reviewed for appropriateness and compliance with University policy in over 10 years. As a result, the recharge activities were not operating on a no-gain/no-loss basis as required per policy. (Observation III.B)

These are explained in greater detail in Section III of this report. Minor items not of the magnitude to warrant inclusion in this report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed an audit to evaluate compliance with University policies and procedures, efficiency and effectiveness of selected operations, and adequacy of internal controls.

B. BACKGROUND

The UCR Libraries is comprised of the main library, Tomás Rivera Library, and three branches: the Raymond L. Orbach Science Library, the Music Library, and the Multimedia Library. Serving as an Information Commons and a primary intellectual center within the University, the UCR Libraries provide access to more than 3,214,420 volumes (401,191 of which are e-books), 94,770 paid electronic journals, 2,908 print serial subscriptions, and 2.3 million micro formats.

The UCR Libraries is also the home of extensive archives, among them, the world-class Eaton Collection of Science Fiction and Fantasy; the Petko Collection on the History of the Book and Printing; the Rupert Costo Library of the American Indian; the Tuskegee Airmen Archive; the Water Resources Collections and Archives; and the 2,455 volume Chou Collection, representing 5,000 years of Chinese literature, history, science, politics and culture.

C. SCOPE

Audit & Advisory Services reviewed selected records supporting transactions that occurred during fiscal year 2011-2012 and examined procedural controls relating to the following major administrative areas:

1. Internal Controls

We evaluated administrative and accounting procedures and internal controls based on management responses to the internal control questionnaire and verification of selected areas.

2. Financial Management

We performed a financial analytical review of expenditures for fiscal years 2008-2009, 2009-2010, 2010-2011, and 2011-2012. This included identifying unusual trends or fluctuations including the reasons for any significant variances.

3. Travel and Entertainment Vouchers

We selected and reviewed a judgmental sample of 34 travel vouchers totaling \$31,137 (which was 36% of travel expenditures during fiscal year 2011-2012.) Additionally, we reviewed the lone entertainment expenditure transaction submitted for the University Librarian during fiscal year 2011-2012.

4. Recharge Activities

We reviewed a sample of recharge rates and recharge activity account balances as of October 2012.

5. Non-Payroll and Pro-Card Expenditures

We selected and reviewed a judgmental sample of 16 non-payroll expenditures totaling \$219,160 from July 2011 through February 2012. We reviewed a random sample of two months' purchase reconciliations in fiscal year 2011-2012. Also, we reviewed Pro-Card users and compared Pro-Card transactions for fiscal year 2011-2012 to prior years.

6. Inventory Management

We reviewed the Library inventory listing as of May 1, 2012, as well as items for disposal in the UCR Library Inventory Database.

6. Payroll and Leave Accounting

We reviewed a random sample of timesheets for 10 Library employees, as well as the corresponding leave accruals.

7. Petty Cash

We conducted counts of the Tomas Rivera and Orbach Science Library petty cash fund on October 17, 2012.

D. INTERNAL CONTROLS AND COMPLIANCE

As part of the review, internal controls were examined within the scope of the audit. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Our substantive audit procedures were performed from October to December 2012. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

A. Inadequate Documentation and Explanations

Travel vouchers lacked sufficient documentation of business purpose/justification and/or sufficient backup to validate expenditures.

COMMENTS

Five of 34 travel vouchers reviewed had inadequate documentation and/or explanations of business purpose/justification:

- Three of the five travel vouchers required additional explanations to verify that no personal related travel expenses were charged to the University and/or expenses were ordinary and necessary for the purpose of the trip. Per Policy G-28 – Travel Regulations, Section V.I.2.a, *“Substantiation (of Expenses) must include the following: The purpose for the travel or the nature of the business benefit derived as a result of the travel.”*
- Two of the five travel vouchers required additional documentation to confirm attendance at business-related conferences. Per Policy G-28 – Travel Regulations, Section V.I.2.b.i., *“The original of the following receipts must be submitted with the Travel Expense Voucher: An agenda, itemized receipt, or other supporting documentation for all registration fees.”*

Additionally, one travel voucher contained an overpayment to an employee in the amount of \$33. The employee subsequently provided reimbursement to the University during the audit period.

RECOMMENDATION

Policy G-28 should be communicated to Library staff to help ensure sufficient documentation of business purpose/justification is included with all travel vouchers so it can be reviewed as part of the review and approval process. Offline records can be maintained and referenced for information that is sensitive in nature, but it should be referenced in the travel voucher. The review and approval process should include verification of amounts charged to help avoid overpayments.

MANAGEMENT RESPONSE

On January 3, 2013 the Libraries' interim CFAO sent out a library-wide message about the importance of accuracy in travel records and information. While the email focused more on the issue of the transient occupancy tax, especially for Oakland and Los Angeles, the URL for policy G-28 was also included. The Libraries' travel coordinator, the final approver and the University Librarian have met and discussed the audit recommendation and we will all be more vigilant that sufficient documentation of business purpose/justification is included with all travel vouchers. We will work one-on-one with library travelers who do not furnish the information from the outset, including at the level of the University Librarian in approving travel requests. While the resolution of inadequate documentation and explanations is nearly complete, we are monitoring our process and this should be resolved by March 29, 2013.

B. Inadequate Review of Recharge Rates and Account Balances

University Library recharge rates have not been reviewed for appropriateness and compliance with University policy in over 10 years. As a result, two of three recharge activities were not operating on a no-gain/no-loss basis as required per policy.

COMMENTS

Three activities operate as recharge activities within the University Library, including large copy printing services, the Science Library conference room, and usage charges for the Water Resources Collections and Archives. Two of the three recharge activities have not had their rates reviewed for appropriateness and compliance with University policy in over 10 years. Per Policy BFB A-47 – University Direct Costing Procedures, Section VI.D.3., *“Recharges shall be related to the cost of goods or services furnished and must provide for the recovery of actual costs, including applicable depreciation. Prices shall be adjusted at least annually to eliminate any surpluses or deficits.”*

As a result, the recharge activities have not been operating on a no-gain/no-loss basis as also required per policy BFB A-56 – Academic Support Unit Costing and Billing Guidelines, Section IV.E., which states *“Recharge activity shall be operated on a no-gain/no-loss basis. Any surplus or deficit occurring in any one year shall be corrected by adjustment of rates in the succeeding year to achieve a break-even balance at the succeeding year end. Every effort should be made to ensure that year-end surpluses or deficits do not exceed one month of the recharging unit's activity.”*

Per accumulated account totals as of October 2012, there is a fluctuating balance of over \$60,000 for the three Library recharge activities.

RECOMMENDATION

The recharge billing rates should be reevaluated by University Library management to reflect the current costs of the recharge activities. Annually, the rates should be reviewed to determine their appropriateness and compliance with the provisions of BFB A-47 and BFB A-56 on operating recharge activities on a no-gain/no-loss basis.

MANAGEMENT RESPONSE

There is an upcoming change in University Library management as the current University Librarian will be retiring. To allow the incoming University Librarian a chance to understand library operations, and to begin a consistent cycle of review, all sales and service accounts will be brought to the attention of the new incumbent for an annual review, beginning in the summer of 2013 (after fiscal close but before the beginning of the fall academic term). The review will include a multi-year plan, since in the case of at least two of the identified accounts, the accumulation/carryover of funds is necessary to achieve an accumulated amount of funding required to replace aging equipment that supports the primary function of that account/purpose. The first annual review of recharge rates and account balances is scheduled to be completed by September 30, 2013.