

**UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES**

**UNIVERSITY LIBRARIES
Report No. 2012-104**

March 15, 2012

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**LORELEI TANJI
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UCI LIBRARIES**

**RE: University Libraries Audit
Report No. 2012-104**

Internal Audit Services has completed the review of University Libraries and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.



Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee

Adrian Petrisor, Director – University Libraries Information Technology
Kevin Ruminson, Acting Assistant University Librarian for Administrative Services
Beth Wootton, Director of Finance – University Libraries Business Office

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I. BACKGROUND

University Libraries consist of three facilities: Langson Library and the Ayala Science Library on campus and the Grunigen Medical Library at the Medical Center. The combined libraries have close to 3.4 million volumes and form the major information resource for both the campus and greater Orange County community.

Langson Library collections consist of various subjects: social science, literature, fine arts, film, education, political science, music, law, history, anthropology, geography, philosophy, psychology and religion.

The Ayala Science Library supports research and instruction in science, medicine, and technology including astronomy, biology, chemistry, computer science, earth system science, engineering, mathematics, medicine, and physics.

The Grunigen Medical Library collects current scholarly information, primarily electronic, which supports the clinical, educational, and research needs of its users. The collection covers health, the practice of medicine and related allied health care disciplines, nursing, research and methodological literature, and reviews of state-of-the-art reports. The library's emphasis is on providing materials at the point of need. As a result, the collection includes thousands of electronic journals, electronic books, and databases.

Libraries employ approximately 142 staff and 120 students with an annual operating budget of approximately \$21 million.

II. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to review internal controls, policy compliance, and information technology (IT) operations from July 2009 to present. Based on Internal Audit Service's (IAS) risk assessment of the Libraries, the following objectives were established:

1. Evaluate the following aspects of employee management: personnel files, background checks, overtime approval, payroll ledger reconciliations, and sick and vacation balance tracking for appropriateness and completeness;
2. Review non-payroll expenditures for approval and appropriate documentation to determine compliance with University policy;
3. Evaluate inventory control procedures, sample inventoried items and include an assessment of procedures regarding the main collection and its value;

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4. Evaluate physical security procedures to ensure assets are properly safeguarded and protected from theft;
5. Evaluate budget and accounting control;
6. Review selected IT operations.

III. CONCLUSION

In general, the selected Libraries' processes reviewed appear to be functioning as intended. However, business risks and control concerns were identified in PALCard transactions, ledger reconciliations, and IT offsite storage.

Observation detail and recommendations were discussed with management who formulated action plans to address the issues. These details are presented below.

IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. PALCard Transactions

Background

The University of California, Irvine (UCI) purchasing card (PALCard) is used by employees who have buying responsibilities to purchase equipment, supplies and services. UCI PALCard policies require supporting documentation for each transaction. UC purchasing policies require purchases to be pre-approved either through a purchase requisition or some other form of documentation, such as an email. In addition, a reviewer must review the PALCard supporting documentation and account/fund for appropriateness in a timely manner and attach appropriate reviewer documentation.

Observation

IAS performed an analysis on a sample of 20 PALCard transactions from July 2009 to June 2011, and noted the following:

- Nineteen internal requisitions did not have a fund source authorizer's signature;
- Nineteen did not have the journal printed out as part of the supporting documentation packet;
- Sixteen had an incorrect object code noted;

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- Seven did not have packing slips; and
- Six did not have sales/use tax appropriately calculated.

IAS also compiled a report of PALCard purchases that were automatically approved through the PALCard review system ("auto-sent"). IAS noted that 16 transactions out of 65 (25 percent) in PALCard purchases were not reviewed in a timely manner or not reviewed at all. IAS reviewed the 16 transactions in detail and noted many of the same issues as above. "Auto-sent" transactions may create a perception that PALCard transactions are not being reviewed and may present an opportunity for fraudulent activity. IAS recommends that the PALCard reviewer create a procedure that will track those PALCard notices that are not reviewed timely to be tracked and post reviewed.

In addition, only nine out of the 36 transactions reviewed had a stated business purpose. As a best business practice, the internal requisition should state the actual business purpose of the expense. This allows the approver the ability to question a purchase before approving funds to be spent. This would also aid the mandatory reviewer in approving the purchase for upload to the ledger (GL), especially since the reviewer is not in the same division as the buyer.

Proper authorization, documentation, and approval of transactions reduce the risk of inappropriate expenses or unauthorized use of University funds.

Management Action Plan

The Libraries Business Office will establish and follow best practices to ensure that UCI PALCard policies and procedures are followed by all employees who have buying and reviewer responsibilities. An initial training session will be held for buyers and reviewers to review policies and procedures with additional sessions held on a periodic or as needed basis. A pre-approved internal requisition will be required for all purchases and the online form will be modified to add a section to state the business purpose and include the fund source authorization signature. The reviewer will insure that all transactions are reviewed for appropriateness in a timely manner and include all the supporting documentation, account, fund and object code, correct sales tax and the printed TOEP journal. If the purchase is not reviewed by the deadline and is automatically approved through the PALCard review system ("auto-sent"), the reviewer will perform the complete review after the fact and sign and date the journal to demonstrate that has been done. A second check will be made by the Senior Administrative Analyst during the GL monthly reconciliation to ensure proper authorization, documentation, and approval of all purchasing transactions.

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2. Ledger Reconciliation

Background

UCI policy states that each manager, who is directly responsible for the financial affairs of that activity, should maintain procedures that monitor and verify transactions in order to reconcile balances monthly to the GL. Departments have a responsibility to ensure the appropriateness and accuracy of all financial transactions applied to their ledger. In addition, the department has the obligation of maintaining signed documentation of this review to ensure that they adhere to internal control procedures.

Observation

University Libraries creates financial reports each month that are distributed to each division. These reports are Excel spreadsheets that are located on shared drives for that manager and are distributed in lieu of the GL. The managers are then able to view the report electronically and see the expenditures for the month and are able to drill down to line item detail.

After discussions with management and staff, it was determined that accounts may not be adequately reconciled since it is not certain that the managers actually review their reports. IAS noted that there is no log or proof of receipt of the report to substantiate that reconciliations were performed.

Reconciliations are crucial in ensuring that financial information is complete, accurate, and valid. Failure to perform reconciliations may result in undetected errors or unauthorized use of University funds.

Management Action Plan

The Libraries Business Office will ensure that the GL will be reconciled as appropriate within University policies and procedures. The Senior Financial Analyst will be responsible for reviewing the financial reports to make sure that they match the GL. The Senior Administrative Analyst will ensure the appropriateness and accuracy of all financial transactions by performing a review and reconciliation of the GL for all Libraries accounts on a periodic basis, preferably monthly, then document the process and sign the reconciliation. The Director of Finance will oversee the process to ensure that these key controls are performed and documented on a monthly or periodic basis.

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3. Offsite Storage

Background

All critical backup media, documentation, and other IT resources necessary for IT recovery and business continuity plans should be stored offsite. IT management should ensure that offsite arrangements are periodically assessed, at least annually, for content, environmental protection, and security. Libraries should ensure compatibility of hardware and software to restore archived data and periodically test and refresh archived data.

Observation

Discussions with the Libraries' IT Director indicate that the Libraries have developed disaster recovery documents that include performing regular back up of their data. However, the backup data are currently not sent to offsite storage but are stored on tapes that are rotated between two separate buildings within the UCI campus. Without a comprehensive disaster recovery plan that includes offsite storage, a disruption affecting the campus may affect the Libraries ability to recover their systems, data, and normal operations.

Management Action Plan

The need for offsite backup is something that the IT Director has been aware of for a long time, but has not had the financial means of pursuing a solution so far. Six months ago, the Director initiated a discussion on this topic with colleagues from the other UC Libraries in the IT Directors Group (the Library Technology Advisory Group), and completed a pilot project with the UC Davis Libraries' IT Director. A subgroup that has been appointed by the Library Technology Advisory Group is currently assessing the results of that pilot project and of other backup-to-disk solutions available in the UC system. The subgroup expects to identify a solution that works for all the 10 campuses by June 2012. In the meantime, most of the Libraries' critical data is stored in two locations (Science Library Data Center and UC Academic Data Center), and the backup tapes in a third location (Langson Library safe). Libraries IT is conducting tests on their backup tapes on a regular basis to make sure that the recovery plan will work as expected.