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Biz of Acq

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Biz of Acq

Preparing for an Audit

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Preparing for an Audit

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Audit The word strikes fear and trembling in most of us whether in the context of our personal lives or our work environments. I imagine few of us conduct our personal business with the expectation of being audited. Hopefully, at least some of us conduct our work with the possibility, or even the expectation, of an audit in mind. Can you really be prepared for an audit? Yes, you can!

How well prepared you are for an audit depends to some extent on how much notice you have. If you are given only a few days' notice, go ahead and panic. Get it out of your system, so you can move on and do some preparation.

Recall that the purpose of an audit is usually not to get you in trouble. While we are more likely to hear of an audit being conducted because of detected or suspected ir-

regularities, this is the unusual scenario. In larger organizations, financial audits are regularly scheduled among departments that are involved in any kind of financial and/or procurement activities. An audit's main purpose is to compare your current, actual practices

with accepted accounting procedures, with your organization's and your library's policies and procedures, and with your records. In essence, the auditor will try to determine how well you are managing your resources.

Before the auditor arrives, be certain you can locate your records. Unfortunately pulling records beforehand will be a futile exercise because the auditor will select a small sample to examine. It will be important for you to quickly obtain the requested records. In examining your records, the auditor will be trying to follow your audit trail, the sequence of records that follows an order from beginning through completion.

During the visit, the auditor will follow a few broad steps. He or she will likely speak with the manager of the department and perhaps with the staff. The discussion will focus on the auditor's methods and expectations. This is the perfect opportunity for the librarian to determine the extent of the auditor's familiarity with library idiosyncrasies (and the standing orders and subscriptions). The auditor will

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also test the procedures to measure their efficacy. The library's financial statements will be checked for accuracy. Finally, the auditor will report the findings verbally, followed by a written report.

One last thing before the auditor arrives: Prepare yourself and your staff with the proper attitude. Be honest. There should not be any reason to hide anything or to feel guilty or defensive. Try to look on the experience as an opportunity to improve your operations. Take advantage of the presence of an expert to get advice and suggestions.

On the other hand, when an audit is not bearing down on you, you have two options. You can continue your status quo — in which case you may well live through the first scenario when the auditor approaches — or you can begin your preparations now.

Review your department with an accountant's eye. Examine your current practices carefully, looking at what really happens as opposed to what is supposed to happen. Review the library's financial procedures and policies. If appropriate, review your organization's financial procedures and policies. If there was a previous audit, review the report. Some specifics to review:

- Segregation of duties. As much as possible, purchase order preparation, receiving, invoice processing and payment should be done by different persons. The segregation helps to reveal errors, and the auditor's thinking is that it would require collusion for theft if duties are separated.
- Authorized signatures. There should not be too many persons authorized to sign financial documents for control reasons, yet a sufficient number so that the flow of work is not slowed. These signatures should be kept on file and up-to-date.
- Conflicts of interest among those responsible for purchasing activities.
- Responsible performance in vendor selection. Vendor selection is done objectively; the library takes advantage of discounts and special offers.
- Open purchase orders are reviewed periodically and followed up.
- Purchase orders are issued only when sufficient funds are available.
- Receipts are examined for acceptable condition, linked to purchase orders, and matched to invoices.
- Mechanisms in place to prevent duplicate payments.
- Credit memos are used promptly.
- All moneys are used appropriately (donated or grant money used for purposes intended).
- Records retention policies exist and are followed. These policies may be established by the parent organization.
- An adequate audit trail exists.

William Z. Schenck, in *Understanding the Business of Library Acquisitions*, defines

the audit trail as "a record of what happens to an order from its initiation through receipt and payment." Not every document associated with an order will be part of an audit trail. For example, claims and general correspondence may be left along the side of the trail. The trail begins with the request to order by the selector, whoever that may be in your library. The order itself, regardless of its format, is the second stop of the trail. Next is the proof of receipt. This can be difficult in a library. The material itself, the existence of a bibliographic record in a local automated system, some record of receipt in an order record of a manual or automated system, or perhaps an invoice, may be acceptable proofs to the auditor. The invoice is the next stop along the trail. Again, it should be matched with the order and the material received. There should also be some indication, preferably on the invoice in addition to any automated records, that the invoice was authorized and paid. The final stop on the trail is the cleared check. The components of the audit trail do not need to be filed together. You may well file each element separately, which is perfectly fine as long as the auditor is able to follow the trail. If your library has a parent organization which maintains some of the records comprising your audit trail, this should not be a problem for the auditor other than taking a bit more time. You would be wise to become acquainted with the personnel, procedures, and policies of your organization's accounting department if you have not done so already. Well-organized audit trails also help with everyday activities in the acquisitions department. For example, if a vendor claims not to have been paid, a clear audit trail helps you to quickly and easily identify the date and type of the last activity on an order.

It is also a good idea to do a monthly reconciliation between your records and your organization's records. As with regular reconciliation of your monthly personal bank statement, reconciling your library's accounts can provide early identification (and hopefully early resolution) of errors.

Automated library systems have proven to be wonderful tools for the acquisitions department, but they can present concerns for the auditor. Automated systems make record-keeping easier but do not absolve you from ensuring that all appropriate records are kept. Most major systems today include a fund accounting component. Fund accounting and an adequate audit trail are perhaps the most important but more overlooked functions when making automated library systems decisions (a biased opinion, perhaps). Most, but not all, systems will produce an audit trail in some format. Different systems will track different components of the trail. It is especially important that you are able to print the steps in an audit trail, particularly if you are unable to maintain the records in electronic form indefinitely.

The specific concerns that auditors may

have with automated systems seem to center on access. An auditor would recommend that remote access to the system from branches or through dial access be limited to searching capabilities. Some integrated library system vendors are able to access your local system via a modem for troubleshooting and/or software upgrades. This is a particular concern for auditors, and some libraries have resolved the problem by limiting vendor access to prearranged times.

Auditors will also carefully examine password access to specific activities on the system. Often the person that processes invoices in the system will be authorized to update records, for the purpose of adding notes, for example. This kind of authorization is a flag to auditors because this person probably has the ability to alter encumbrance, order, or receipt information. Few if any systems allow for password authorization at the field level. The auditor will also examine the number of persons that can authorize passwords and the other work responsibilities of those persons, again looking at separation of duties and/or conflict of interest. Finally, the auditor will examine the integrity of the passwords' confidentiality.

Most of us do not eagerly anticipate an audit, but if you follow these suggestions before receiving the message that the auditor is coming, your panic, if you have any at all, should be minimal and you will be able to breeze through the ordeal with confidence.

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