Performance Audit of the Montgomery County Public Libraries Collection Management Program

Montgomery County Public Libraries

OIG Publication # OIG-22-012

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EXECUTIVE SUMMARY

We initiated this audit of the Montgomery County Public Libraries (MCPL) pursuant to our mandate to conduct reviews of the internal accounting practices and controls used by principal offices in the Executive Branch. Our audit largely focused on the highest non-personnel expenditure category, library materials, in MCPL's fiscal year (FY) 2020 budget. In FY 2020, MCPL had a budget of approximately $43 million, with approximately $6 million dedicated to the purchase of library materials. We examined a representative sample of library material purchases and all contracts in effect in FY 2020. We also assessed controls over specific library materials and the extent that community interest and needs is used to inform the acquisition of library materials.

OBJECTIVES

Through this audit we attempted to determine (1) whether contracts for library material acquisitions over $50,000 are administered in accordance with MCPL purchasing procedures, to include contract formation and contract payments; (2) whether direct purchases of library materials of $50,000 or less are administered in accordance with MCPL purchasing procedures, department standard business procedures, and relevant Department of Finance policies; (3) whether non exempt procurements are administered in accordance with the Montgomery County Code; (4) the extent to which criteria around community interest and needs is used to determine the selection of library materials; (5) whether MCPL's inventory management process contains controls over library materials that are deemed to be lost, missing, or discarded.

SCOPE & STANDARDS

Our audit covered activity from July 1, 2019, through June 30, 2020, and was conducted in accordance with the generally accepted government auditing standards (GAGAS).

RESULTS

- MCPL has documented procedures in place covering the purchase of library materials.

- MCPL did not always document a purchase order number, a contract number and evidence of separation of duties on invoices as required.

- MCPL did not timely enter electronic receipts for direct purchase orders.

- Library materials orders were placed against an expired agreement and without having funds approved.

- MCPL had incomplete policies governing the process to purge items from the inventory system and does not monitor purging activities.

- To ensure community needs and interests are fully represented, MCPL could benefit from improved oversight of the world languages collection and selection decisions.

RECOMMENDATIONS

We made 8 recommendations aimed at improving the effectiveness and efficiency of MCPL's Collection Management Program and ensuring adherence to county policies.

We recommended MCPL enforce compliance with all accounts payable requirements related to the payment of invoices. Additionally, we recommended MCPL develop processes to ensure appropriate approvals of direct purchase orders are obtained, that orders are not placed against expired agreements, and that invoices are matched to valid agreements before being processed for payment.

We further recommended MCPL develop policies and processes to better account for library materials.

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Through its 22 library branch locations, the Montgomery County Public Libraries (MCPL) offers "free and equal access to services and resources that connect the people of Montgomery County to ideas and information which sustain and enrich their lives"[1]. MCPL develops and maintains a collection of print and audio-visual library materials and programs and provides library users with access to online resources, including eBooks, eMagazines, eAudiobooks, movies, music, and streaming services. MCPL also offers library users an array of services, including access to computers and internet, printing, the Interlibrary Loan (ILL) service[2], meeting spaces, and discovery rooms. Due to COVID-19, MCPL has adjusted operations to accommodate imposed restrictions and safeguards, including providing virtual programming and launching a contactless Holds to Go service. MCPL utilizes a database called the Integrated Library System (ILS) to manage the inventory of library materials.

MCPL is managed by a director who is a professional librarian and guided by the Montgomery County Library Board (Library Board). The Library Board is comprised of 14 members appointed by the County Executive and confirmed by the County Council. In fiscal year (FY) 2020, MCPL had a budget of $43,064,563 with approximately $6 million reserved for purchasing library materials and approximately $34 million for personnel expenditures. The budget is divided into three major program areas: Library Services to the Public; Administration, Outreach, and Support Services; and Collection Management. Table 1 displays the allotted budget for each area.

Table 1: MCPL FY20 Approved Operating Budget

Program Name	FY20 Approved Budget Allocation
Library Services to the Public	$29,766,111
Administration, Outreach, and Support Services	$2,927,160
Collection Management	$10,371,292
Total	**$43,064,563**

This performance audit (audit) focused primarily on the selection and acquisition of library materials conducted through the Collection Management program. The selection process is intended to provide "well-rounded and balanced collections which are comprised of new and popular materials; reference tools; materials that assist in life-long learning; and multilingual materials."[3]

MCPL acquisitions, contracting, and procurements are overseen by MCPL's Business Office. MCPL is exempt from following the county's procurement law when acquiring library materials[4] (referred to as exempt procurements) but is required to follow those requirements

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[1] https://montgomerycountymd.gov/library/about/index.html
[2] The ILL service supports MCPL by providing enhanced access to library materials and information that are not available within MCPL.
[3] MCPL Collection Policy
[4] Montgomery County Code Sec. 11B-4 does not apply when "obtaining copyrighted material and information which is intended for use by the public in or through a public library...".

when procuring most other goods and services (referred to as non-exempt procurements). MCPL has established procedures to address the purchase of library materials which are outlined in the *Purchasing Procedures for Acquisition of Library Materials, November 2012* (PPALM). The PPALM classifies library materials purchases into three categories:

1. Acquisitions up to and including $50,000 (direct purchases);
2. Acquisitions over $50,000; and
3. Acquisitions based on sole source justification.

We focused our testing of library material acquisitions in the first two categories: direct purchases and acquisitions over $50,000. A direct purchase can be used to acquire library materials valued at up to and including $50,000 through a single payment order or a direct purchase order (DPO)[5] encumbrance. It does not require a contract.

Acquisitions over $50,000 are those where MCPL anticipates it will have "total annual orders in excess of $50,000"[6] with a vendor. These acquisitions require MCPL to enter into requirements contracts generally referred to as basic ordering agreements (BOAs).

OIG Audit Approach

Our audit covered activity from July 1, 2019, through June 30, 2020, and included all DPOs related to library material purchases; all paid invoices related to library material DPOs with payment amounts of $50,000 or less; all contracts related to non-exempt procurements; and all recorded library materials purchases.

Through our audit we sought to determine whether library material purchases and non-exempt procurements complied with applicable policies and regulations. We also attempted to evaluate the extent to which criteria around community needs and interest was used to determine the selection of library materials for purchase. We further sought to establish whether MCPL's collection inventory management process contained controls over library materials deemed to be missing, lost, or discarded. We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS).

Appendix A contains additional information on this audit's objectives, scope, and methodology.

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[5] Per the Authorized Payment policy, a "Direct Purchase Order or DPO is a department issued purchase order that indicates to a vendor that the department has authorized the purchase of goods and services from the vendor. Normally, a DPO is for the informal procurement of goods or services by a department for up to $10,000."
[6] PPALM

Consistent with our mandate to conduct reviews of the internal accounting and contracting processes and controls used by principal offices in the Executive Branch we reviewed MCPL's budget and focused our audit on library materials, the highest non-personnel expenditure category, and non-exempt procurements. In FY 2020, MCPL spent approximately $4 million on library materials using various procurement vehicles. We examined a representative sample of library material purchases and all contracts in effect in FY 2020. We also assessed controls over specific library materials and the extent that community interest and needs is used to inform the acquisition of library materials.

We identified that MCPL had actively taken steps to address a number of self-identified deficiencies. They recognized that the library materials database was not providing the capabilities needed and therefore took steps to procure a new system. They also created a new procedure document to address accounts payable requirements. However, through our audit, we noted instances where MCPL did not comply with county policies related to the payment of invoices for purchases of library materials and non-exempt purchases. We also observed that MCPL did not always comply with their own policy[7] related to the encumbrance of funds and placed orders against an expired basic ordering agreement (BOA). Lastly, we found that controls are lacking and not formally documented for the purging of items identified as missing, lost, or discarded.

We further observed that MCPL could benefit from improved management of the world languages collection, and evaluation of selection decisions to ensure that community needs and interests are represented to the fullest extent.

Noncompliance with Policy

MCPL is required to follow the county's *Accounts Payable Policies, Financial Governing Principles and Standards, August 2, 2017 (*Accounts Payable Policy) and *Accounts Payable Section Policies, Authorized Payment, April 1, 2018* (Authorized Payment Policy) for all purchases. During this audit, we discovered instances where MCPL did not adhere to applicable policies related to the processing of invoices. We also noted MCPL placed orders for library materials before getting the necessary approvals from the Department of Finance (Finance) and placed orders against an expired basic ordering agreement.

Invoice Processing

County policy requires that invoices received for both exempt and non-exempt purchases, are processed in a particular manner. To examine compliance with policies, we analyzed 11 invoices related to non-exempt purchases and a random sample of 28 invoices related to exempt purchases.

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[7] Purchasing Procedures for Acquisition of Library Materials (PPALM)

Finding 1: Invoices did not always include purchase order or contract numbers.

County procurement law defines a proper invoice as "a written request from a contractor for payment from the County for performance under a contract that: (A) complies with all documentation requirements under the contract and regulation; (B) represents work covered by the contract that has been satisfactorily performed, validated, and certified by County representatives; and (C) identifies the contract number or adequately describes the contract". The contracts in our selection required that contractors submit an invoice in a form and format approved by the county.

The county's Accounts Payable Policy outlines the county approved invoice format and requires contractors to submit valid invoices containing, among other requirements, a contract number and valid purchase order (PO) number prior to receiving payment.[8] The Authorized Payment Policy requires that PO numbers be matched against related invoices to facilitate a three-way matching process and ensure adequate controls over payments of invoices. During our testing of 11 selected invoices for non-exempt purchases, we found that five invoices did not include a contract number and one invoice was missing both a PO number and a contract number. Additionally, we observed that 2 of the 11 invoices referenced a PO that was closed prior to the issuance of the invoice.

MCPL staff informed us that they did not include the PO and contract numbers because Finance at one point indicated that including PO and contract numbers on invoices was a recommended practice and not required. MCPL staff also told us that Finance recently informed them that they were reviewing the Accounts Payable Policy "to reflect procedural changes necessitated by the increase in electronic invoice processing and the Invoice Requirements will be updated accordingly. Including clarification that the inclusion of the PO and contract numbers on invoices is preferred practice, not required…" We spoke to Finance for clarification on this issue and were told that the PO and contract number requirement was in effect during our audit scope period. It's important to note that not only was this requirement in the county's policies, but it was also included in MCPL's procedures that were enacted after our scope period.

The exclusion of a PO and/or contract number on invoices may limit the invoice processor's ability to perform a three-way match between POs, receipts, and invoices potentially leading to receiving goods or services against an incorrect PO in the county's Oracle E-Business Suite (Oracle). This could also potentially result in duplicate or improper payments to contractors and leave MCPL vulnerable to fraud schemes.

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[8] A purchase order (PO) is used by the Office of Procurement to encumber funds for purchases made pursuant to the county's procurement regulations.

Recommendation 1

We recommend MCPL ensure that all invoices related to non-exempt purchases document a valid purchase order number and contract number prior to payment as required by departmental procedure.

> **Finding 2: Invoices did not clearly document evidence of an appropriate separation of duties.**

The Accounts Payable Policy requires that the person authorizing a transaction or approving an invoice should be separate from the person receiving the goods and services and the person processing the invoice in Oracle. The Accounts Payable Policy allows for departments to utilize a manual process to adequately separate responsibilities if they are unable to do so in Oracle. The manual process requires that all invoices have the signature of a "knowledgeable receiver"[9] and department designated approver, and the purpose [or role] of each signature should be clearly noted on the invoices.[10]

During our testing, we found that all 11 selected invoices related to non-exempt purchases failed to clearly document an appropriate separation of duties. We found that:

- Six invoices included a signature indicating invoice approval but were missing a second signature to indicate that the goods or services were received and acceptable;
- Four invoices were approved by individuals that were not designated as department approvers;
- Three invoices included a signature indicating approval and a second signature without a related purpose; and
- Two invoices contained signatures with no defined purpose.

During our testing of 28 randomly selected paid direct purchase invoices, we found that 9 did not have the appropriate signatures indicating approval or were not signed by the receiver. Specifically, we found that:

- Three of the nine invoices did not have an approver signature;
- In three other instances, we found that the invoices were not signed by a receiver indicating the goods were received and acceptable; and
- The remaining three invoices did not have any signatures indicating approval or receipt of goods.[11]

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[9] A knowledgeable receiver (commonly referred to as a receiver) is an employee that can confirm that the correct items have been received, and the items are in good condition or that work has been satisfactorily performed.

[10] Accounts Payable Policy

[11] For one of these three invoices we received a letter of delinquency instead of a proper and valid invoice.

Due to the lack of clearly documented signatures with the related purpose for each signature on invoices, we were unable to determine whether adequate separation of duties was achieved for all non-exempt purchases and for nine (9) out of 28 direct purchases. Based on the results of our random sample testing, we can project with 95% confidence that between 16.34% and 51.66% of direct purchase invoices in FY 2020 will have similar instances of noncompliance.[12]

During our discussions with MCPL's contract administrator, we learned that in early 2020 the MCPL Business Office identified that invoices were being submitted without required signatures. In response, they implemented a procedure[13] on July 10, 2020, which was after our scope period, that required invoices to meet the Accounts Payable Policy and began retraining MCPL staff.

In previous audits, the OIG and the Montgomery County Office of Internal Audit noted similar issues in three other county departments. In response to previous related recommendations, Finance provided that they were in the process of updating the Accounts Payable Policy, including addressing how approvers and receivers should document their review and their role. Finance stated that they anticipated completing the update by the third quarter of FY 2022.

These scenarios illustrate that payments to contractors or suppliers are occurring without documenting that an adequate separation of duties occurred. The deficiencies we observed limit MCPL's and the county's ability to ensure the integrity of purchases and could result in erroneous and illegitimate payments to contractors or suppliers.

Recommendation 2

We recommend MCPL ensure that all invoices, as required by the Accounts Payable Policy, include the signatures of, and affirmatively identify, the official authorized to approve the invoice and the knowledgeable receiver.

> **Finding 3: Electronic receipts for DPOs were not always entered into Oracle timely.**

The Accounts Payable Policy states that the person performing the receiving function, or their delegate, should enter an electronic receipt against the DPO or PO in Oracle either the same day that goods and services were received or within one business day of delivery. The policy states that the receiving function in Oracle is intended to be a "true representation and independent verification of what has been received regardless of what has been billed by the supplier".[14]

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[12] Refer to Table 3 in Appendix A for the sampling methodology. This projection is based on a 32.14% sampling deviation rate.
[13] Standard Business Procedures for the Approval and Payment of Invoices
[14] Accounts Payable policy

In our random sample of 28 invoices for exempt purchases, 6 invoices could not be tested because they were not signed by a receiver and 16 did not have electronic receipts entered into Oracle timely. By comparing the receipt date documented on the 16 deficient invoices to the receipt date in Oracle we noted electronic receipts were entered between 2 and 84 days after goods were received.

Based on the results of our testing, we can project with 95% confidence that between 37.75% and 74.83% of direct purchase invoices in FY 2020 will have similar instances of noncompliance with timely electronic receiving.[15] MCPL's lack of oversight associated with full and accurate independent verification of goods received against DPOs could potentially result in fraud, payment processing errors, and an inability to perform three-way matching of DPOs, receipts, and invoices.

Recommendation 3

We recommend MCPL provide training to staff and enforce compliance with the Accounts Payable Policy to ensure that electronic receipts for DPOs are entered into Oracle either the same day that goods were received or within one business day of delivery.

Orders and Purchases

Through our audit we also assessed MCPL's compliance with their own procedures when purchasing library materials with a value over $50,000. We examined 21 DPOs whose individual total value was greater than $50,000 and discovered instances where MCPL did not obtain the requisite approval from Finance before placing orders and where MCPL placed orders for library materials against an expired BOA.[16]

> **Finding 4: Library materials were ordered before obtaining Finance's approval for an encumbrance of funds.**

Section 6.1.3.3. of the department's PPALM states that, "[b]efore placing an order with a contractor, the Department must request and receive from [Finance] sufficient documentation of an encumbrance to cover the appropriate contract amount." During our audit, we learned that Finance's approval of the DPO in Oracle constitutes an approval of sufficient documentation of an encumbrance of funds to cover the BOA amount for library materials acquisitions over $50,000.

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[15] Refer to Table 3 in Appendix A for the sampling methodology. This projection is based on a 57.14% sampling deviation rate. The projection also assumes that there were no additional instances of noncompliance for the remaining six samples for which we could not obtain the receipt dates from the invoices.

[16] Per the Authorized Payment policy, a DPO is a department issued purchase order that indicates to a vendor that the department has authorized the purchase of goods and services from the vendor.

Finance's *Financial Analysis, Audit, and Compliance Section Policies, Direct Purchase Orders Workflow, February 1, 2019* (DPO Workflow Policy) further supplements MCPL's PPALM and Authorized Payment Policy by stating that, "DPOs in excess of $10,000 for non-procurement and exempt purchases must be submitted to Finance for review and approval *prior to* the purchase of goods, services or construction by the DPO. Beginning September 30, 2019, Oracle prevents departments from receiving against a DPO or entering an invoice for payment against the DPO prior to Finance's approval."

To perform our testing, we attempted to compare Finance's DPO approval dates in Oracle to the dates that orders were placed. We modified our testing and used the invoice date instead of the order date after being told by the Collection Management manager that MCPL does not consistently maintain documentation related to the placement of orders.

In our testing of the 21 DPOs, we found that orders totaling $241,770 were placed against 4 DPOs that had not been approved by Finance.[17] Three of the four orders pertained to database subscription renewals and one was related to a bulk purchase of books. MCPL was unable to explain why orders were made against 3 of the 4 DPOs without Finance's approval. For the order against the fourth DPO, MCPL staff attributed the delay to perceived timing restrictions at the changeover between fiscal years.

The encumbrance process is designed to ensure that county funds are expended only for authorized and appropriate purposes and protect against errors, fraud, and misappropriation. Committing county funds without first obtaining Finance approval exposes the county to risks that the encumbrance process was designed to prevent.

Recommendation 4

We recommend MCPL develop a process to ensure Finance's approval of direct purchase orders is obtained, as required by the PPALM and the DPO Workflow policy, prior to renewing subscriptions or purchasing goods and services.

> **Finding 5: Orders for database subscription renewals totaling $168,043 were placed against an expired basic ordering agreement.**

Section 6.1.1. of the PPALM states that, "[a] written contract document is required in connection with all acquisitions of library materials with the exception of direct purchases." During our testing of orders placed against 21 DPOs, we found four invoices related to database subscription renewals placed against an expired BOA. The invoices totaled $168,043

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[17] The related payments were not made until after Finance's approval was obtained.

for orders placed between November 1, 2018, and September 29, 2019. The corresponding BOA expired on October 31, 2018.

We noted that two invoices totaling $60,691 were paid on January 10 and January 23, 2019, after the BOA expired. The remaining two invoices totaling $107,353 were processed for payment, however the funds were not released until after September 30, 2019, when the new BOA was in effect and nearly a year after the previous BOA expired. MCPL staff informed us that prolonged negotiations between the Office of the County Attorney (OCA) and the contractor delayed the establishment of a new BOA that would have covered the purchases.

A 2012 OIG audit, *Review of Montgomery County Public Libraries Collection Management Procurement Internal Controls*, *OIG Report # 13-001*, found similar issues with MCPL placing orders against expired BOAs. At that time, MCPL explained that workload backlogs prevented them from renewing contracts timely. MCPL agreed to work to resolve the issue and improve monitoring of BOAs. Although we found far fewer instances in the current audit, MCPL has room for improvement in this area.

Absent a BOA, contractors can demand payment from the county through a claims process which could be costly and inefficient. According to section 12.1 of the PPALM, a claim can be made by a contractor who furnished goods or services to the county when, "services are rendered or goods are delivered and accepted after the termination of a contract, but otherwise in conformance with its terms and conditions." MCPL's practice of purchasing materials without a BOA may cause the county to expend funds that were not appropriated.

Recommendation 5

We recommend MCPL

a) **Develop a process to ensure that orders are not placed against basic ordering agreements that have expired.**

b) **Develop a process to ensure that invoices are matched to valid basic ordering agreements prior to being processed for payment.**

Missing Controls Over Inventory Management

Library materials are routinely purged from the ILS after being classified by library staff as missing, lost or discarded. Once purged, materials are permanently deleted from the ILS. In our attempt to evaluate whether MCPL established inventory management controls over these items, we noted MCPL had incomplete policies, does not maintain information about why items were purged from the ILS, and does not monitor purging activities.

> **Finding 6:** MCPL had incomplete policies governing the process to purge items from the ILS and did not monitor purging activity.

In FY 2020, MCPL purged from the ILS 443,644[18] items deemed missing, lost, or discarded valued at approximately $5.9 million[19]. The MCPL Director told us that the number of purged items is reflective of MCPL's effort to have clean and accurate records as they transitioned to a new ILS. MCPL was not able to provide us with data detailing how many items are typically purged from the ILS in a given year. We attempted to evaluate whether MCPL established inventory management controls over library materials deemed to be missing, lost, or discarded. We noted that MCPL had some policies in place over the process to identify and categorize items deemed to be missing, lost, or discarded, however they had incomplete policies outlining the process to purge those items from the ILS.

Table 2 displays the gaps in policy with respect to the documented controls over materials as they progressed to being removed from the ILS. In discussions with MCPL staff, we noted that they follow unwritten procedures to address each of the areas where there are gaps in policy. The absence of standardized policies could lead to inconsistent data which hampers efforts to replace sought after items.

Table 2: Documented Controls Over Missing, Lost or Discarded Items

Process Control	Missing	Lost	"For Discard"
Initial Classification in the ILS	In Policy	In Policy	In Policy
Update Location in the ILS	Automated	Automated	Not Required
Evaluation	Not in Policy	In Policy	In Policy
Reporting on Status	Not in Policy	Not in Policy	Not in Policy
Location Change to MCDPL	Not in Policy	Not in Policy	In Policy
Removal from the ILS	Not in Policy	Not in Policy	Not in Policy
Record Retention	Not in Policy	Not in policy	Not in Policy

In our attempts to obtain information about the process to purge items, we learned that MCPL does not maintain information about why items were purged from the ILS nor monitor purging activities. As such, they were not able to tell us exactly how many items were removed from the system and why they were removed. As a publicly funded agency, MCPL has an obligation to monitor and safeguard resources. Maintaining and evaluating information on purged materials will help identify misconduct and mismanagement, indicators of theft, and other process deficiencies that could lead to a loss of resources.

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[18] The number of purged items is based on reports we received from MCPL management who stated that they could not confirm the accuracy of the data. The 443,644 figure represents the most conservative estimate provided.

[19] MCPL could not provide us with a detailed breakdown the value of the purged items. Therefore, we based our calculations on the average price of items purchased in FY 2020. Refer to Appendix A for more detail.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) [20], a recognized source for developing internal control frameworks, generally recommends that management design appropriate types of control activities to achieve their objectives and respond to risks[21]. Based on our observations, we determined that MCPL would benefit from designing control activities for the purging of materials from the ILS, including maintaining and evaluating data about what is purged.

Recommendation 6

We recommend MCPL

a) Develop written complete policies and procedures for every stage of the process for purging library materials from the Integrated Library System to include retention of records detailing the reason items were purged.

b) Monitor purging activity in an effort to detect misconduct, identify deficiencies in branch collections, and recognize indicators of systemic problems.

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[20] The COSO developed an *Internal Control – Integrated Framework* that is widely accepted and utilized in various organizations around the world. The framework is recognized as a "leading framework for designing, implementing and conducting internal control and assessing the effectiveness of internal control."

[21] The COSO explains that control activities are the policies and procedures that enforce management's directives to achieve the entity's objectives and address related risks.

DIVERSITY, EQUITY, AND INCLUSION OBSERVATION

The OIG is committed to seeking opportunities to address diversity, equity, and inclusion in all aspects of our work, including our audits and reviews. Our commitment is consistent with Montgomery County's advancement of racial equity and social justice. Montgomery County residents have broad linguistic and cultural interests. Approximately 41% of the county's population speaks a language other than English as their primary language, and 24.3% of those residents speak a language other than Spanish.

We noted MCPL has various objectives and goals centered around anticipating, supporting, and responding to the "diverse informational, cultural and leisure needs of community residents of all ages."[22] Central to this effort are MCPL's activities to ensure library branches have varied and diverse materials available. Through our audit, we attempted to examine the extent to which MCPL considered community needs when selecting library materials. However, we were unable to do so because MCPL does not retain documentation of the criteria used to make individual selection decisions.

We noted the library material selection process, in general, allows for a high degree of subjectivity. Selectors are given broad flexibility, with limited oversight, as to which factors may be considered when making purchasing decisions and are not required to document the reasoning behind those decisions.

While looking at the selection process for the world languages collection, we found MCPL had no documented policies and procedures specific to selecting those materials. We noted that in FY20, although MCPL allocated approximately $55,000 to purchase materials in languages other than Spanish and English, no purchases were made. We also learned that library users expressed concerns to library staff about the datedness of materials in the world languages collection and the lack of representation of other languages that are spoken in the county. Through our discussions with MCPL staff, we noted general confusion over who was responsible for maintaining the world languages collection and were told that MCPL has struggled to identify vendors from which to purchase materials for the collection.

In addressing this observation, MCPL staff informed us that the process for developing and monitoring the world languages collection is under review. They acknowledged that MCPL's world languages collection may not include all necessary languages and that language collections are potentially misaligned with community demographics.

While MCPL works towards improving overall management of the world languages collection, we encourage them to design processes that give greater oversight to the selection process. MCPL's practice of not maintaining information relative to the criteria considered when making selection decisions limits their ability to effectively evaluate whether community needs have been met, one of their stated goals. This could result in a missed opportunity to fully optimize efforts to support the needs of the county's diverse population and promote diversity, equity, and inclusion.

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[22] MCPL Collection Policy

OIG Comments to the CAO's Response

The CAO's response to our report is included in its entirety in Appendix B. The response notes concurrence with the OIG's recommendations.

We expect specific details related to the County's actions and plans to implement our recommendations to be included in the Internal Auditor's fiscal year 2022 annual report which, in accordance with County Code §2-25A, is due in the fall of 2022.

APPENDIX A: OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of this performance audit were to:

1) Determine whether contracts for library material acquisitions over $50,000 are administered in accordance with MCPL purchasing procedures, to include contract formation and contract payments;

2) Verify whether direct purchases of library materials of $50,000 or less are administered in accordance with MCPL purchasing procedures, department standard business procedures, and relevant Department of Finance policies to include receiving goods and services, invoice requirements and required approvals;

3) Ascertain whether non-exempt procurements are administered in accordance with the Montgomery County Code, Chapter 11B. Contract and Procurement, VI. Contract Administration;

4) To assess the extent to which criteria around community interest and needs is used to determine the selection of library materials; and

5) To assess whether MCPL's inventory management process contains controls over library materials that are deemed to be lost, missing, or discarded.

Scope and Methodology

The scope of our audit covered the period July 1, 2019, through June 30, 2020. We included all DPOs related to library material purchases created during our scope period; all paid invoices related to library material DPOs with payment amounts of $50,000 or less; all contracts related to non-exempt procurements that were in effect during our scope period; and all recorded library materials purchases made by selectors in FY 2020.

We did not perform a comprehensive evaluation of the usefulness, condition, or historical significance of library materials within MCPL collection. We also did not evaluate the operating effectiveness of all internal controls over library materials, or management of library cardholder accounts. Further, we did not attempt to assess the reliability of data within the ILS and related analytic software because staff responsible for the data could not confirm the accuracy of the information provided within the system.

We conducted our fieldwork from June 2021 to December 2021. To accomplish our objectives, we conducted interviews with the Collection and Technology assistant director, managers, and staff; MCPL Business Office manager; and the procurement specialist to gain an understanding of the control environment. We also conducted walkthroughs at five branch locations and four selectors to understand the controls over inventory management for library materials

classified as missing, lost, and discarded, and the extent to which MCPL utilizes criteria around community needs and interests.

We obtained and reviewed the following criteria for our performance audit:

1. Accounts Payable Policies, *Financial Governing Principles and Standards, August 2, 2017 (Accounts Payable policy)*;

2. Accounts Payable Section Policies, *Authorized Payment, April 1, 2018 (Authorized Payment policy)*;

3. American Library Association (ALA) tools, publications, and resources; and

4. Financial Analysis, Audit, and Compliance Section Policies, *Direct Purchase Orders Workflow, February 1, 2019 (DPO Workflow policy)*;

5. MCPL Collection Policy;

6. MCPL Policies and Procedures Manual;

7. MCPL Purchasing Procedures for Acquisition of Library Materials, November 2012 (PPALM);

8. Montgomery County Code, Section 11B-34;

9. OP Overview of Contract Administration in Montgomery County, Contract Administrator Training, FY 2020 (contract administrator training);

10. The United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014 (Green Book).

Objective 1 – Acquisitions Over $50,000

To determine whether contracts for library material acquisitions over $50,000 were administered in accordance with the contract formation and contract payments sections of the PPALM, we utilized the county's Enterprise Business Intelligence and Reporting (BI) purchasing details module to make selections for testing. We filtered the PO details report by DPO as the PO type; cost center 71401 (collection management administration); account codes 62700 (books/reference materials), 62710 (book processing), and 62712 (other books); PO creation date of FY 2020; and encumbered amounts greater than $50,000. As a result, we selected 21 DPOs and reviewed the related BOAs. We also judgmentally selected one invoice per DPO selection dated during FY 2020.

We obtained and inspected various supporting documentation for each of the 21 DPO selections to evaluate whether a written BOA existed; MCPL Terms and Conditions of Contract were incorporated into all BOAs; the BOA forms were reviewed and approved as to form and legality by the OCA; all BOAs contained appropriate signatures; sufficient documentation of an encumbrance of funds was received from Finance; a Notice to Proceed under the BOA was not

issued until the BOA was awarded and an encumbrance document had been executed; and payments were made after contractor performance occurred and the performance and amount of the payments were accepted as being in accordance with the terms of the BOA. We also sought to determine whether any orders were placed against a BOA after the BOA expiration date.

<u>Objective 2 – Direct Purchases of Library Materials</u>

To verify whether direct purchases of library materials were administered in accordance with MCPL's PPALM[23] and relevant Finance policies[24], we utilized the county's BI accounts payable details module to identify a population of paid invoices to randomly sample[25] from using the sampling methodology shown in Table 3 below.[26] We filtered the Accounts Payable invoice payment details report by cost center 71401 (collection management administration); account codes 62700 (books/reference materials), 62710 (book processing), and 62712 (other books); check dates during FY 2020; and DPOs with associated invoice payment amounts of $50,000 or less. We assessed the reliability of this data by reviewing documentation, tracing a total of 28 randomly selected records back to the source documents, and interviewing MCPL staff. We determined that the data was sufficiently reliable for our reporting purposes. Based on our sampling methodology we can project the results of our testing to the population.

Table 3: Random Sampling Methodology - Direct Purchases

Population	Population Size	Population $	Confidence Level	Tolerable Deviation Rate	Expected Deviation Rate	Sample Size	Sample $
Paid invoices related to direct purchases of library materials	453	$786,113	95%	10%	0%	28	$115,385

We obtained and inspected various supporting documentation for each of the 28 sampled paid invoice numbers to determine whether the contracting officer certified that purchases were necessary; funds for the purchase were appropriated and available; the price was fair and reasonable; county invoice requirements were met; a permitted authorized commodity/ payment code was utilized; invoices were signed by both a receiver and designated approver; relevant supporting documents were attached to invoices above $10,000 in Oracle; the person authorizing the transaction or approving the invoice was separate from the person receiving the goods or services and the person processing the invoice; and whether electronic receiving in Oracle was performed timely.

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[23] Through our audit, we learned that MCPL's Standard Business Procedures for the Approval and Payment of Invoices did not become effective until July 10, 2020, which was after our scope period. Therefore, we did not verify MCPL's compliance against these procedures.

[24] We utilized relevant sections of the Accounts Payable policy, Authorized Payment policy, and DPO Workflow policy related to receiving goods and services, invoice requirements and required approvals.

[25] A sample is a portion of a population that is examined or tested in order to obtain information or draw conclusions about the entire population.

[26] Our population of paid invoices excluded the following invoice source types: SelfService (related to expense reimbursements) and JPM (related to purchase card transactions).

Objective 3 – Non-exempt Procurements

To determine whether non-exempt procurements were administered in accordance with Section 11B-34 of the County Code, we utilized the county's BI purchasing details and accounts payable details modules to make selections for testing. We selected all 14 contracts that were active during FY 2020. We obtained and inspected various supporting documentation for each of the 14 contracts to determine whether the contract administrator maintained a complete file of required contract documents and whether any orders were placed against a contract after the contract expiration date.

To perform additional testing, we attempted to identify and select POs created, and invoices received against each of the 14 contracts during FY 2020. Of the 14 contracts only 11 had POs created in FY 2020 and only 8 of the 11 POs had invoices received against them as shown in Table 4 below. We tested 11 invoices against relevant sections of the Accounts Payable policy. For the selected invoices, we obtained supporting documentation to determine whether the contract administrator reviewed the contract documents and verified the receipt of goods or services for each invoice; confirmed the invoice corresponded to a PO; verified the proper compensation; approved the invoices for timely payment; and ensured that a proper invoice was received from the contractor.

Table 4: Non-random Sampling Methodology – Non-exempt Procurements

Contract Selection #	POs Issued in FY 2020?	Invoice Dates in FY 2020?	# POs Selected for Testing	# Invoices Selected for Testing
1	Yes	Yes	2	2
2	Yes	Yes	2	2
3	Yes	No	1	N/A
4	Yes	No	1	N/A
5	Yes	No	1	N/A
6	Yes	Yes	1	1
7	Yes	Yes	1	1
8	No	N/A	N/A	N/A
9	Yes	Yes	2	2
10	Yes	Yes	1	1
11	Yes	Yes	1	1
12	No	N/A	N/A	N/A
13	Yes	Yes	1	1
14	No	N/A	N/A	N/A
Total Selections	**11**	**8**	**14**	**11**

Objective 4 – Community Needs and Interests

To assess the extent to which criteria around community needs and interest is used to determine the selection of library materials we performed inquiries of the Collection and Technology unit staff and branch managers from five branch locations.[27] We also conducted process walkthroughs with four selectors to understand the selection process for library material; performed inquiries of two individuals from the executive team regarding MCPL's FY 2017 – 2020 strategic plan; and conducted research on industry best practices for selecting library materials for public libraries.

Objective 5 – Inventory Management Controls

To assess whether MCPL inventory management process contains controls over library materials deemed missing, lost, or discarded, we performed inquiries of the Collection and Technology unit staff and branch managers from five branch locations. We also conducted control walkthroughs of relevant modules within ILS; reporting features within CollectionHQ and Bluecloud Analytics; branch operational procedures for updating key status changes for library materials classified as missing, lost, discarded, and purged. We also reviewed purge count reports to attempt to quantify the number of library materials removed from the ILS inventory records. MCPL could not provide us with a detailed breakdown the value of the purged items. Therefore, we based our calculations on the average price of physical library material items purchased in FY 2020. We determined the average cost per unit of an item by dividing the total FY 2020 purchases by the total units of items ordered.[28] Total FY 2020 purchases related to physical library material items were $2,434,490 and the total count of related FY 2020 units purchased was 182,074, which resulted in an average cost per unit of $13.37. However, we could not assess the reliability of purge count data because staff responsible for the data could not confirm the accuracy of the information provided within the ILS. We conducted research on industry best practices for inventory management controls over library materials in public libraries.

Internal Controls

MCPL management is responsible for the design, implementation, and operating effectiveness of MCPL's internal controls. We assessed MCPL's internal controls and compliance with policies and procedures necessary to satisfy our audit objectives. We did not evaluate the internal controls of MCPL to provide assurance on its internal control structure as a whole. Through walkthroughs and interviews, we assessed whether internal controls related to the design of appropriate control activities, separation of duties, and documentation of responsibilities through policies are properly designed and implemented. However, because

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[27] We judgmentally selected five branch locations to perform our walkthroughs with: Twinbrook Library, Marilyn J. Praisner Library, Quince Orchard Library, Potomac Library, and Silver Spring Library

[28] We excluded electronic resource and leased items from the total FY 2020 purchases.

our review was limited, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

<u>Auditing Standards</u>

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: THE CAO'S RESPONSE

The Chief Administrative Officer provided the following response to our report:

OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

Richard S. Madaleno
Chief Administrative Officer

MEMORANDUM

March 4, 2022

TO: Megan Davey Limarzi, Inspector General

FROM: Richard S. Madaleno, Chief Administrative Officer

SUBJECT: Performance Audit of the Montgomery County Public Libraries Collection
          Management Program (OIG Publication #*OIG-22-00X*)

Thank you for the opportunity to respond to the recommendations identified in the Performance
Audit of the Montgomery County Public Libraries Collection Management Program (OIG
Publication #*OIG-22-00X*). As noted in the report, Montgomery County Public Libraries
(MCPL) had already begun actively working toward improving our processes related to
procurement, invoicing and direct purchase orders prior to the commencement of the audit
process. We are proud that our dedicated staff identified opportunities to strengthen our controls
and processes. MCPL continued this improvement by launching a new Integrated Library
System (ILS) in October 2021. This new system will provide enhanced reporting for better
tracking of deleted items. Additionally, MCPL is working to obtain another software product to
help track basic ordering agreements (BOAs) and renewals. Through continual assessment of
policies and procedures, MCPL is ensuring that Montgomery County residents are receiving high
value from their library system.

The draft report noted the following recommendations.

Recommendation 1: We recommend MCPL ensure that all invoices related to non-exempt
purchases document a valid purchase order number and contract number prior to payment as
required by department procedure.

CAO Response: We concur. MCPL has already taken steps to communicate and enforce the
documentation requirements for the processing and approval of invoices related to non-exempt
purchases.

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The MCPL Business Office issued its Standard Business Procedures for the Approval and Payment of Invoices ("the Procedures") in July 2020. The issuance date was one month after the audit timeframe. These internal Procedures require the contract and PO numbers to be identified on the invoice prior to payment. Training on the Procedures was provided to appropriate staff in groups and individually. The Business Office continues to educate staff and reinforce the Procedures as the need arises. The Business Office reviews each invoice for compliance before processing the invoice for payment.

Recommendation 2: We recommend MCPL ensure that all invoices, as required by the Accounts Payable Policy, include the signatures of, and affirmatively identify, the official authorized to approve the invoice and the knowledgeable receiver.

CAO Response: We concur. As noted in the draft report, MCPL had previously identified the need to strengthen the internal controls and processes in this area and implemented a procedure on July 10, 2020, that required invoices meet the Accounts Payable Policy. MCPL had begun retraining staff at that time.

As noted above, the MCPL Business Office issued Standard Business Procedures for the Approval and Payment of Invoices ("the Procedures") in July 2020, one month after the audit period. Reflecting AP Finance policy, the Procedures require all invoices to have two signatures: one by the knowledgeable receiver affirming that the goods/services were received as invoiced, and a second reflecting that the invoice is approved by an authorized staff member (manager or supervisor). Training on the Procedures was provided to appropriate staff in groups and individually.

Recommendation 3: We recommend MCPL provide training to staff and enforce compliance with the Account Payable Policy to ensure that electronic receipts for DPOs are entered into Oracle either the same day that goods were received or within one business day of delivery.

CAO Response: We concur and will ensure that MCPL takes appropriate steps to enforce compliance with the Accounts Payable Policy requirements concerning timely entry of electronic receipts into Oracle.

Recommendation 4: We recommend MCPL develop a process to ensure Finance's approval of direct purchase orders is obtained, as required by the PPALM and the DPO Workflow policy, prior to renewing subscriptions or purchasing goods and services.

CAO Response: We concur and will ensure that MCPL takes necessary steps to implement appropriate controls and processes and enforce compliance with the MCPL Purchasing Procedures for Acquisition of Library Materials (PPALM) and the DPO Workflow policy with regards to obtaining Finance's approval of DPOs prior to purchasing goods and services,

including subscription renewals. The procurement of a new Electronic Resource Management system will assist MCPL with better tracking of BOAs and renewal timelines.

Recommendation 5: We recommend MCPL
  a) Develop a process to ensure that orders are not placed against basic ordering agreements that have expired.
  b) Develop a process to ensure that invoices are matched to valid basic ordering agreements prior to being processed for payment.

CAO Response: We concur. Consistent with the steps planned to respond to Recommendation 1 above, we will ensure that MCPL takes necessary steps to develop appropriate controls and processes to ensure that orders are placed only against valid BOAs, and that invoices are matched to valid BOAs prior to being processed for payment. The procurement of a new Electronic Resource Management system will assist MCPL with better tracking of BOAs and renewal timelines.

Recommendation 6: We recommend MCPL
  a) Develop written complete policies and procedures for every stage of the process for purging library materials for the Integrated Library System to include retention of records detailing the reason items were purged.
  b) Monitor purging activity in an effort to detect misconduct, identify deficiencies in branch collections, and recognize indicators of systemic problems.

CAO Response: We concur. MCPL migrated to a new Integrated Library System (ILS) in October 2021, replacing a product that was deficient in this area. MCPL is actively working within their new ILS vendor, Koha, to create reporting around the maintenance of our collections, and track items that are damaged, lost, or withdrawn within the scope of library collection policies and procedures. MCPL is committed to documenting more detailed policies and procedures, disseminating them to appropriate MCPL staff, and then monitoring purging activities across branch collections for any systemic problems or issues that need to be addressed to protect County investments and promote availability of materials to residents.

Diversity, Equity, and Inclusion Observation

CAO Response: As noted in the draft report, MCPL is in the process of re-assessing its approach to the world languages collection to ensure alignment with community demographics. MCPL has proposed a budget enhancement request for FY23 to update and maintain these collections. As part of this effort, MCPL will also assess the current selection process and the criteria considered in making selection decisions in the formation of an updated collection development policy, including a diversity, equity, and inclusion audit of our collections.

We appreciate the recommendations reflected in the report and will take appropriate actions to further strengthen the existing controls and processes as noted in the report.

Performance Audit of the Montgomery County Public Libraries Collection Management
Program (OIG Publication *#OIG-22-00X)*
March 4, 2022
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Thank you for bringing these matters to our attention.

cc: Fariba Kassiri, Deputy Chief Administrative Officer, Office of the County Executive
       Anita Vassallo, Director, Montgomery County Public Libraries
       Michael Coveyou, Director, Department of Finance
       Bill Broglie, Internal Audit Manager, Office of the County Executive