

HHS COMMITTEE #1
November 29, 2012
Briefing

MEMORANDUM

November 27, 2012

TO: Health and Human Services Committee

FROM: Vivian Yao, Legislative Analyst 

SUBJECT: **Briefing: IG Report - Review of Public Libraries Collection Management Procurement Internal Controls**

The Health and Human Services (HHS) Committee will discuss the results of the Office of the Inspector General's review of Montgomery County Public Libraries Collection Management Procurement Internal Controls. The following individuals are expected to attend this discussion:

- Edward Blansitt, Inspector General
- Michael Morgan, Office of the Inspector General (OIG)
- Parker Hamilton, Director, Montgomery County Public Libraries

Inspector General Report

The OIG's presentation to the Committee is at ©1-4, and the final report is attached at ©5-20. A summary of the report can be found at ©6. The OIG reports that it received an anonymous complaint through the fraud hotline that an amount in excess of \$200,000 was missing from the Department's collection development budget. After preliminary inquiries to library management, the OIG decided to conduct a review of controls related to the procurement function and test purchase transactions.

The OIG's review and testing did not disclose instances of fraud; however, the OIG found that the Department's internal controls process for procuring library materials are weak and leave the County vulnerable to loss and that the Department did not consistently implement procedures approved by County Chief Administrative Officer (CAO) and County Attorney. See also ©3 and ©10-16 for additional information on report findings.

The OIG made the following recommendations:

- Ensure that procedures and controls necessary to assure the integrity of Library's procurement processes are established and documented.
 - Request guidance from Department of General Services, Office of Procurement and County Attorney.
 - Use existing county guidance to extent practicable.
- Implement and monitor compliance with stated procedures.
- Amend the period of performance and relevant information in the contracts it uses to procure library materials.

Executive Branch Response to Inspector General report

In the October 11, 2012 response of the CAO to the Inspector General (©19-20), the CAO fully agreed "that the procedures related to the acquisition of library materials needed to be improved, both in terms of enhancing the procedures and better ensuring compliance with established procedures." The CAO's response describes the Executive Branch efforts to respond to the OIG's recommendations at that time.

The November 21 memorandum from Director Hamilton attached at ©21-22 provides additional updates on the Department's efforts to address issues raised by the OIG. The memorandum reports the following accomplishments:

- The Department has revised a memorandum documenting the contracting process with materials vendors to address fairness and reasonableness of pricing, the barred status of vendors, and additional information about the selection of vendors.
- The Department has, to date, replaced six of ten expired Basic Ordering Agreement contracts. Two more contracts are in the final draft stage and expected to be signed shortly. The remaining two contracts did not have enough activity in FY12 to justify negotiating a contract.
- A work group including representatives from the Department of Finance, the Office of the County Attorney, the Office of Procurement, and the Office of Internal Audit has convened to review the Department's draft comprehensive manual on acquisition procedures. A draft has been submitted to the group for final review, and Director Hamilton expects to submit the manual to the CAO for review before the end of the month. **The Committee may be interested in knowing whether this has been done.**
- The manual on acquisition procedures fully describes the entire materials purchasing process from budgetary planning through vendor selection, ordering, receiving, processing and delivery, in compliance with the County's procedures. The manual

includes new, clarified or improved procedures to improve internal controls including (1) clarification of procedures regarding direct purchase of library materials without contract; (2) a new format for the Delegation of Authority Memorandum; (3) the submission of an annual report to the Director detailing library materials purchasing activities; (4) periodic reviews of vendor selection decisions; (5) clarification that direct purchase orders are to be created before orders are made; (6) clarification of the signature requirement for receiving library materials; and (7) clarification of order approval processes.

The Committee may be interested in seeking comment from the OIG regarding the efforts taken by Executive Branch departments to address the issues it raised and whether the OIG has plans to review the implementation of these changes/responses in the future.

**IG-Report : Review of Public Libraries Collection Management
Procurement Internal Controls**

**Presented to Montgomery County Council
Health & Human Services Committee**

MONTGOMERY COUNTY MARYLAND

OFFICE OF THE INSPECTOR GENERAL

Review of Public Libraries Collection Management Procurement Internal Controls

Reasons for conducting the review, objectives & methodology

- **Anonymous Fraud hotline allegation that over \$200,000 was missing from the collection development budget**
- **OIG questions to management regarding controls indicated probable control weaknesses vulnerability errors or fraud**
- **Determine whether controls related to the procurement function in the Collection Management Program are effective as designed, documented, and implemented consistently**
- **Examined and tested Library's policies and procedures-both documented and undocumented, delegations, budget and purchase transactions**

Review of Public Libraries Collection Management Procurement Internal Controls

Key Findings:

- **internal controls are weak and leave the County vulnerable to loss, but our review and testing did not find instances of loss or fraud**
 - **Procedures for order approval, receiving inventory and approving contracts are not formally documented, fully developed or followed consistently**
 - **The receiving function does not provide specific controls such as an independent signature and date on items received-individual approving payment may lack independent assurance of receipt**

- **Library does not consistently implement procedures approved by County CAO and County Attorney**
 - **Even though many contracts had expired and performance dates were not extended the Library ordered over \$3million in purchases under those contracts**
 - **Procedures covering contract formation, financial encumbrances and Contract documentation were not implemented consistently**

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Review of Public Libraries Collection Management Procurement Internal Controls

Recommendations:

- **Ensure that procedures and controls necessary to assure the integrity of Library's procurement processes are established and documented**
 - Request guidance from Department of General Services, Office of Procurement and County Attorney
 - use existing county guidance to extent practicable
- **Director of Libraries implement and Monitor compliance with stated procedures**
- **Amend the period of performance and relevant information in the contracts it uses to procure library materials**

FINAL REPORT

Office of the Inspector General

Review of Montgomery County Public Libraries
Collection Management Procurement Internal Controls

October 12, 2012



**Montgomery County, Maryland
Office of the Inspector General**

Report in Brief

REVIEW OF MONTGOMERY COUNTY PUBLIC LIBRARIES COLLECTION MANAGEMENT PROCUREMENT INTERNAL CONTROLS

October 12, 2012

BACKGROUND

The Montgomery County Public Libraries began operation in 1951 with 4 branches and has since expanded to 21. The Library's mission is to offer free services and materials to a diverse County population.

Library materials are purchased by the Library's Collection Management Program. To facilitate and expedite the purchase of such materials, the Library has an exemption from County procurement regulations.

WHY WE DID THIS REVIEW

The Office of the Inspector General (OIG) received an allegation through the fraud hotline that an amount in excess of \$200,000 was missing from the collection development budget. Based upon preliminary inquiries, we determined that our office should conduct a review of the relevant controls and test purchase transactions.

The objectives of this review were to determine whether internal control procedures related to the procurement function in the Library's Collection Management Program are effective as designed, documented, and implemented consistently.

WHAT WE FOUND

We found that internal controls are weak and leave the County vulnerable to loss. However, our review and testing did not disclose instances of fraud.

We found that the procedures for order approval, receiving inventory, and approving contracts are not formally documented, fully developed, or adhered to consistently. In particular, the receiving function does not provide specific controls such as an independent signature and date on items received. The department did have several undocumented procedures which would provide a framework for some, but not all of the controls needed to ensure and preserve the integrity of the procurement process for library materials.

To evaluate the payment approval process, we tested a sample of payments for FY 2010, 2011 and 2012, to test both the accuracy of payments and that someone separate from the ordering and receipt processes approved payment. We found no exceptions. All invoices agreed with the original orders for pricing, quantities and discounts and all evidenced proper payment approvals.

We found that the Library does not consistently implement the procedures as approved by the Chief Administrative Officer and the Office of the County Attorney. Even though many contracts had expired and performance dates were not extended, the Library continued to order over \$3 million in purchases under those contracts. Additionally, the Library did not consistently follow other procedures designed to ensure the integrity and effectiveness of the contracting process.

WHAT WE RECOMMEND

We recommend that the Director of the Public Libraries Administration ensure that procedures and controls necessary to assure the integrity of its procurement processes are established and documented. The Department should request guidance from the Department of General Services, Office of Procurement, and the Office of the County Attorney to facilitate implementation. The Department should, to the extent practicable, use the Office of Procurement's existing guidance and forms available to all County agencies, rather than create its own description of procedures and controls.

We recommended that the Director of the Public Libraries Administration implement and monitor compliance with the Library's stated procedures, and amend the period of performance and all relevant information in the contracts it continues to use to procure library materials.

**Review of Montgomery County Public Libraries
Collection Management Procurement Internal Controls**

October 12, 2012

Introduction

We reviewed the Montgomery County Public Libraries Administrations' (the Library) internal controls over procuring materials that are publicly available in the County's libraries.

The Office of the Inspector General (OIG) received an ambiguous yet troubling anonymous allegation through the fraud hotline that an amount well in excess of \$200,000 was missing from the collection development budget. The caller asked that an audit covering several prior years be conducted. The allegation stated that the Library was unable to order additional materials and that bills could not be paid. The OIG had no additional contact with the caller and did not receive additional information to support the caller's assertion.

During a preliminary meeting with senior Library officials, we raised questions as to whether controls over the collections program were strong enough to detect or prevent errors and potentially fraudulent actions. Based upon the answers received and in light of the significant dollar amount specified in the allegation, we decided to conduct a review of the internal controls and test selected transactions.

Background

The Montgomery County Library began operation in 1951 when it assumed control of seven formerly independent libraries: Four Corners, Gaithersburg, Garret Park, Noyes, Sherwood, Silver Spring, and Wheaton. Since then the Library has grown to 21 branches to serve the needs of a highly diverse County population. During FY 2011, the Library had 5,722,203 customer visits and 10,137,952 items were checked out.¹

The Library's mission is to offer 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. Its vision is that the diverse County community will find the Library to be an open, inviting, and vital gateway to the information, ideas, and enrichment that strengthen the County.²

Within the Library, the Collection Management program (formerly part of the Collection and Technology Management Division)³ provides for the selection, acquisition,

¹ Source: The County Executive's recommended FY 2013 Operating Budget.

² *Ibid.*

³ The Collection and Technology Management Division was reorganized in FY 2012 with Technology Management services reporting to the Director MCPL along with some of the virtual services functions.

cataloging, processing, and delivery of library content and materials, including electronic resources, eBooks, and eAudiobooks. The Collection Development Unit is responsible for planning the inclusion of new formats, and the evaluation of collections in relation to community information needs. Collections are purchased for English learners, as well as collections in Spanish, Chinese, Vietnamese, French, Korean, and Russian.

The materials delivery service delivers new materials, customer requested items, and returned materials among MCPL branches and between several jurisdictions in the region. The cataloging and processing unit prepares all library materials for use in the branches. The Interlibrary Loan service provides opportunities for Montgomery County cardholders to use materials from public library systems throughout Maryland, from out-of-state public libraries, and from academic and special libraries throughout the world.

Collection Development Policy

The Director of the Library advised OIG that all full-service libraries have collections which include children's, young adult, and adult materials, in print and non-print format. Additional materials which expand the scope of the Library's collection include electronic databases, e-books, e-audio books, downloadable music, and other information offered via the Library's web site. The Library's online catalog allows customers to search for library materials. As a demographically diverse County, library materials are selected for all ages, from children to teens to adults and seniors, to meet the community's evolving needs and interests. An emphasis is placed on materials for early childhood through grade six. Young adult materials are selected for teens in a wide age range extending from middle school through high school. The adult circulating and reference collections are selected and maintained to meet the varied informational and leisure reading needs of adults and young adults.

Budget Overview

The Library along with other county agencies experienced major financial cuts due to worsened economic and fiscal conditions that affected the FY 2010 and FY2011 budgets. The original approved budget for library collection materials for FY 2010 was \$5,512,630. After two savings plans reductions (October 28, 2009 for \$1,350,000 and January 7, 2010 for \$698,450), the final FY 2010 budget was \$3,464,180. This amount represented a 37.1% reduction from the original FY 2010 budget. A procurement freeze was also initiated on December 10, 2009 with further purchasing restrictions and a direct purchase freeze effective April 26, 2010. The library and other county agencies were required to freeze procurements and cancel orders.⁴ OMB exemption approval was required for procurement actions and after April 26, 2010 for direct purchases.

For FY 2011, the Library's Collection Materials budget was further reduced by \$464,160 for an approved budget of \$3,000,020. Total changes from the FY 2010 original to the

Although the FY 2012 Organization charts and approved operating budget did not reflect the change it was conveyed to OIG in interviews and appears in the FY 2013 approved operating budget.

⁴ This action is similar to that reported to the OIG fraud hotline by the anonymous caller.

FY 2011 approved budget resulted in a \$2,512,610 or 45.6% Library collection materials reduction.

The total approved FY 2012 Operating Budget for the Library was \$28,475,300, a 1.6 % decrease from FY 2011. Personnel costs comprised 80.7 % of the budget for 167 full-time and 171 part-time positions for 288 work-years. Operating expenses accounted for the remaining 19.3 % of the FY 2012 budget. In FY 2012, the Library expected to spend approximately \$4.1 million on library collection materials purchases.

Procurement Exemption for Library Materials

The Montgomery County Code Chapter 11B, *Contracts and Procurement*, sets forth the County's procurement requirements. However, to facilitate and expedite the purchase of library materials, County Code, Chapter 11B-4 (a)(5) provides an exemption from these requirements. The exemption states that "This Chapter, other than Article XII [Ethics in Public Contracting], does not apply to...obtaining copyrighted material and information which is intended for use by the public in or through a public library under procedures approved by the Chief Administrative Officer." The County's Chief Administrative Officer (CAO) approved and signed these procedures in September 2010. The CAO previously approved similar procedures in 1998.

Delegation of Authority

The September 2010 procedures and the 1998 procedures before them provide that the "Authority to procure library materials is vested in the Chief Administrative Officer. By these procedures, the authority to procure library materials is delegated to the Director [Public Libraries Administration], subject to revision by the Chief Administrative Officer."

Objectives, Scope, and Methodology

We describe our review methodology in Appendix A.

Findings and Recommendations

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet management's objectives. Internal control also serves as the first line of defense in safeguarding assets, preventing and detecting errors and reducing vulnerability to fraud.⁵

The Library's internal control process for procuring library materials consists of two distinct parts: various undocumented procedures and a set of documented procedures approved by the County's Chief Administrative Officer. The undocumented procedures, as related to OIG by Library staff, include the steps needed to order, approve, receive, and provide payment approval for Library purchases. The documented procedures focus primarily on the legal and contractual aspects of procurement, e.g. contract policy, contract formation, contractor requirements and legal remedies.

Finding 1 – The Library's Procedures Are Not Effective as Designed

Effective policies and procedures are a key aspect of internal control. "They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results."⁶ Although the Library has documented procurement procedures, they are not effective as designed because they do not address the critical control measures that govern the processes for ordering, approving, receiving, and paying for procurements (the undocumented procedures). The Library's documented procedures were updated in 2010 but are essentially the same procedures that existed in 1998.

Library staff described the detailed processes they follow for these undocumented procedures. The procedures consist of many automated and manual steps involving as many as eight library staff. These procedures provide a framework for some but not all of the controls needed to reduce potential loss exposure to a minimum level. As a simplified overview, the undocumented procedures include but are not limited to:

Budget Management and Operations Coordination -The overall collection budget is set by the County Executive and the County Council, upon the advice of the MCPL Director. The kinds of materials to be purchased with the total funds available are identified annually by the Director, upon the advice of the Collection Management Manager, the Business Manager, and other Department Managers and staff. The Collection Management Manager also coordinates the timing of ordering activity to manage processing, cataloging, receiving, delivery and branch operations workload. The Business Manager is also responsible for contract administration and encumbrance approvals.

⁵ United States Government Accountability Office (GAO) [formerly the U.S. General Accounting Office], *Standards for Internal Control in the Federal Government*, November 1999, page 4.

⁶ *Ibid.*, p 11.

Selecting materials for order – The Library has four individuals called selectors who develop orders for the purchase of library materials. Each selector has individual specialties/topics such as children’s picture books, adult non-fiction, graphic novels, etc. Selectors develop orders of specific titles of library materials in various formats in their assigned specialties to meet the needs of customers as expressed in the collection budget plan.

Order Approval - All orders must be approved by the Library Collection Management Manager. For manual orders, a copy of the order is provided to the Library Assistant I who enters relevant information into the Library inventory system and transmits it to vendors without electronic ordering systems. Selectors create electronic orders with vendors having such ordering systems and the Library Collection Manager approves these orders on-line.

Fulfillment – After receipt of an approved order, the vendor fulfills the order and ships the goods to the Library warehouse in Gaithersburg, Maryland.

Receiving – Goods are received by a receiving clerk, verified by the Library Assistant I, and entered into the Library tracking and inventory system.

Invoice set up – The Library Assistant I sets up the invoice in the accounting system.

Invoice approval – The invoice is approved for payment by the Collections Management Fiscal, Delivery, and Receiving Manager.

These steps represent just a few of many in the procurement of library materials. It is these undocumented procedures, in concert with the Library’s documented legal and contractual procedures that should comprise a complete, documented program for effective control over procurements of library materials.

Because the Library’s formal procedures lack procurement details and controls, the Library relies primarily on employees’ judgment, institutional memory, integrity, and availability to ensure procurements are conducted properly. Without fully documented procedures, the procurement process is informal and unreliable.

To evaluate the effectiveness of the Library’s internal control process, we observed and evaluated implementation of the undocumented procedures (order approval, receipt of goods and payment approval).

We found that the procedures as described to us are not implemented consistently. Our testing disclosed that orders were not approved as described to us in 5 of the 45 procurements tested for 2011 and 2012.⁷ Specifically, the orders did not evidence an order approval signature from the Collections supervisor. However, all invoices were

⁷ OIG tested a sample of 45 transactions for various attributes from FY 2011 (22) and 2012 (23). The universe of transactions was 3,427 of which 1,640 were from FY 2011 and 1,787 were from FY 2012.

ultimately approved for payment by an individual independent of the ordering process. We note that all five exceptions occurred in FY 2011 under a former Collections supervisor.

Additionally, none of the receiving documents examined contained a signature or date to indicate that someone independent of the ordering process had verified that the goods received conformed to the orders placed.⁸ GAO defines segregation of duties as “Key duties and responsibilities needed to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets. No one individual should control all key aspects of a transaction or event.”⁹

Library staff advised OIG that when the Library receives orders, the receiving clerk examines the shipping documentation and circles an item to confirm the quantity received. This might suffice as an independent confirmation, but the clerk does not sign this receiving report. As a result, there is no way to authenticate who received the goods.

Before the Collections Management Fiscal, Delivery, and Receiving Manager approves payment, the receiving clerk forwards the receiving report to the Library Assistant I. That individual compares the quantities received (as noted on the shipping documentation by the receiving clerk) with the quantities ordered, enters the data into the Library tracking and inventory system, and sets up the invoice for payment. This process involves the Library Assistant I in both the ordering (as noted above) and receiving processes. When coupled with the potential for placing unapproved orders with vendors, the situation presents an internal control vulnerability with respect to segregation of duties.

To evaluate the payment approval process, we tested a sample of payments for FY 2010, 2011 and 2012, to test both the accuracy of payments and that someone separate from the ordering and receipt processes approved payment. We found no exceptions. All invoices agreed with the original orders for pricing, quantities and discounts and all evidenced proper payment approvals.

Although our review and testing did not disclose instances of fraud, internal controls are weak and leave the Library and the County vulnerable to loss. Controls are weak because they are not documented, fully developed, or adhered to consistently. In particular, the receiving function does not provide needed evidence to support that someone independent of the other functions received and accounted for goods and services received. Absent specific identification of the person receiving goods and services, the

⁸ Although OIG’s sample size was 45, we tested only those 24 transactions for which goods were physically accepted at the receiving dock in Gaithersburg, MD. The remaining 21 transactions were for database renewals or a form of electronic media. Databases, e-books, and other electronic content are implemented on the County’s web-site by the Virtual Services unit, who makes the purchased content available for customer use. The Collection Management Manager authorizes payments for this kind of content.

⁹ GAO *Standards for Internal Control*, *op. cit.*, p.14.

individual approving payment lacks the assurance that an independent party made such receipt.

Recommendation 1: Document and Consistently Implement All Library Control Procedures

The Director of the Montgomery County Public Libraries Administration should ensure that procedures and controls needed to assure the integrity of its procurement process are established and documented. The Department should request guidance from the Department of General Services, Office of Procurement, and the Office of the County Attorney to facilitate implementation. The Department should, to the extent practicable, use the Office of Procurement's existing guidance and forms available to all County agencies, rather than create its own description of procedures and controls.

Finding 2 – Documented Procedures Are Not Implemented Consistently

The Library did not consistently adhere to all of the policies and procedures approved for the Library by the Chief Administrative Officer and the Office of the County Attorney. Although the Library's procedures contain specific contract and informational requirements, the Library did not amend or modify contracts as they neared expiration and other contract procedures were not implemented as stated.

Orders for Library Materials Were Placed Against Expired Contracts

Although Library procedure 10.1 states that all contract modifications and amendments must be approved by the Office of the County Attorney, procedure 10.2 allows the Director (Library), under extraordinary circumstances¹⁰, to approve a contract modification or amendment to a contract that has expired. A sample Basic Ordering Agreement (BOA) attached to the Library's procedures depicts the official Library contract document approved by the Office of the County Attorney. A BOA provides for an effective date and end date "unless canceled, suspended, extended, or otherwise modified in writing by the Contracting Officer or her designee."

To assess compliance with stated contractual provisions, we reviewed the Library's contract files. These files contain the contract documents for each vendor. As of May 2012, the Library had 16 vendors with which it had contracts. However, 12 of those 16 contracts had expired. Nonetheless, during FY 2011 and FY 2012, the Library placed orders against 10 of the 12 expired contracts. Expired contracts against which FY 2011 and FY 2012 orders were placed expired as early as June 30, 2009 and as late as May 31, 2011. Based on ordering information the Library provided to OIG, we estimate that more than \$3 million in orders were placed with the 10 vendors in FYs 2011 and 2012 after their contracts had expired (see Table 1).

¹⁰ Extraordinary circumstances include situations where goods or services have already been provided; a contract has expired; or a contract has been fully completed.

Table 1. Expired Contracts: Value of Orders Fulfilled After Expiration

		FY 2011	FY 2012	FY 2011 and
	Date	Total After	Total After	FY 2012
Vendor	Expired	Expiration	Expiration	Totals
Baker & Taylor	6/30/2010	\$846,730.36	\$425,171.71	\$1,271,902.07
Book Wholesalers	1/31/2011	\$296,663.34	\$297,601.98	\$594,265.32
Broadart	01/1/2011	\$43,667.20	\$6,682.14	\$50,349.34
Gale	6/30/2009	\$107,967.15	\$31,137.01	\$139,104.16
Ingram	5/31/2010	\$63,425.19	\$28,880.12	\$92,305.31
OCLC	5/31/2011	\$11,359.26	\$26,319.14	\$37,678.40
PanAsian	6/30/2010	\$15,550.00	\$0.00	\$15,550.00
Proquest	6/30/2010	\$191,614.00	\$178,270.00	\$369,884.00
Recorded Books/Landmark	7/31/2010	\$214,256.52	\$168,786.00	\$383,042.52
Scholastic	3/31/2010	\$65,339.98	\$11,479.73	\$76,819.71
TOTALS		\$1,856,573.00	\$1,174,327.83	\$3,030,900.83

Another concern regarding the expired contracts is that the designation of the Library's "Authorized Ordering Agents" is out of date. All of the 12 expired contracts continue to list an authorized ordering agent who is no longer a Library employee.

Library personnel confirmed that the contracts had indeed expired and that orders continued to be placed against them but explained that a workload backlog prevented timely renewals and that renewals were in process.

The Library's reliance on expired contracts for purchases of library materials may expose the County to contractual or legal vulnerabilities. The Office of the County Attorney agreed that without a valid contract, pricing and scope could be in dispute.

Contractual Procedures Were Not Implemented Consistently

Contract Formation

Library procedure 4.2.4 states that "The County, through the Department, will enter into requirements contracts when it anticipates that it will have total orders in excess of \$50,000, but the County is not obligated to place any minimum order with any contractor that has a requirements contract with the County."

Our testing of 45 transactions found one FY 2012 transaction with a vendor for more than \$50,000 where no written contract existed. The procurement was for database services and the single FY 2012 invoice was for \$79,202.61. Total payments to the vendor for that year were \$122,852. In FY 2011, payments to this same vendor totaled \$119,086 without a written contract.

Financial Encumbrance

Library procedure 6.1.3.3 requires that “Before placing an order with a contractor, the Department must request and receive from the Director of the Department of Finance sufficient documentation of an encumbrance to cover the appropriate contract amount.” The purpose of this requirement is to ensure that funds are available prior to making a commitment to a vendor. We tested a sample of 45 invoices and found that 32 of the 45 invoices (71%) were encumbered after the vendor submitted an invoice.

Contract Documentation

The Library’s sample BOA contains specific information related to contractor signatures. Section VII of the BOA states that “The person signing for the Contractor must have the authority to bind the Contractor to the execution of this agreement. The signature must be accompanied by either a) the affixation of the Corporate seal to this page or b) an attestation by an officer of the Corporation that the signator has the legal authority to bind the contractor.”

Although contracts require signatures by someone with the authority to bind the contractor and a corporate seal or attestation, this procedure was not followed for 7 of the 16 contract files examined. In some cases, there was a single signature without a corporate seal or a single signature without an attestation.¹¹

The Library’s procedures also require that certain contract related information be documented including but not limited to: affirmation of a fair and reasonable price (4.2.5.1.4); adequacy of warehouse stock (4.2.5.2.1); contractor fill rate (4.2.5.2.2) discounts offered (4.2.5.2.3); availability of related services, and adequacy of general business services (4.2.5.2.5).

Our contract file review disclosed that these procedures were not consistently documented in 9 of the 16 contract files examined. The remaining seven files specifically addressed a fair and reasonable price and seemed to generally address the other procedures. These seven files contained a statement from the former Chief, Collection Management that stated “The specific library materials that are the subject of the agreement are offered at fair and reasonable prices by a responsive and responsible vendor that are in the best interests of the County.”

Because the Library did not consistently implement certain procedures, it does not comply with the “Procurement Procedures for Acquisition of Library Materials,” as authorized by the Chief Administrative Officer under the authority of the County Code. These procedures are designed to demonstrate that the Library has a valid contract in place for purchasing library materials, has properly encumbered funds, did its “due

¹¹ The Office of the County Attorney opined that this situation does not represent a serious legal issue and that the signature/seal requirements may be out of date. The Office of Procurement agreed that the requirement is out of date. If so, such requirement should be revised under the auspices of Recommendation 1.

diligence” work in determining that it verified a vendor’s capabilities, assessed that a vendor could perform as expected, and ensured that costs to the County would be reasonable and prudent. Absent documented information, such determinations are not possible.

Recommendation 2: Ensure Compliance with Stated Procedures

The Director of the Montgomery County Public Libraries Administration should

- implement and monitor compliance with the Library’s stated procedures and
- amend the period of performance and all relevant information in the contracts it continues to use to procure library materials.

Summary and Conclusions

Effective internal control requires that organizations have documented policies and procedures that are implemented consistently. The Library's currently undocumented procedures for ordering, approving, receiving, and paying for purchases must be strengthened and formally documented. It is these procedures, in concert with the Library's documented legal and contractual procedures that should comprise a complete, documented program for effective control over procurements of library materials.

The Library needs to improve implementation of the policies and procedures approved by the Chief Administrative Officer and the Office of the County Attorney. Even though many contracts expired, performance dates were not extended and the Library continued to order over \$3 million in purchases under those contracts. Additionally, the Library did not consistently follow other procedures designed to ensure the integrity and effectiveness of the contracting process.

Although our review and testing did not disclose any specific instances of fraud, internal controls are weak and leave the Library and the County vulnerable to loss. Many procedures are not documented, fully developed, or adhered to consistently. In particular, the receiving function does not provide the control needed to ensure and preserve the integrity of the procurement process for library materials. Absent specific identification of the person receiving goods and services, the individual approving payment lacks the assurance that an independent party made such receipt.

Summary of Chief Administrative Officer's Response and OIG Response

The Chief Administrative Officer's (CAO) response to the final draft report is included in its entirety in Appendix B.

The CAO's response indicated agreement with all of our findings and recommendations.

The CAO stated that corrective actions have been taken and other improvements are in process. These include:

- The Library has drafted a comprehensive manual that includes revised procedures and new procedures and which is now with other County Departments and Offices for review and final guidance.
- The Office of Internal Audit will develop ways to conduct periodic external reviews of Library compliance.
- The Library has updated the documentation provided for contracts and is working to replace all expired materials contracts, three of which it has already replaced.

The CAO's response did not cause us to alter our findings or recommendations.

Appendix A: Objectives, Scope, and Methodology

The objectives of this review were to determine whether internal control procedures related to the procurement function in the Library's Collection Management Program are effective as designed, documented, and implemented consistently.

We conducted this audit from February through August 2012 at the Montgomery County Government offices in Rockville and Gaithersburg, Maryland. The audit included interviews with County officials and staff from the Public Libraries Administration; Department of General Services, Office of Procurement; Department of Finance; Office of the County Attorney; Office of Management and Budget; Office of the County Executive, Internal Audit Program; and Office of Human Resources.

We examined and evaluated the Library's policies and procedures dated September 2010 and March 1998; delegations of authority; Library personnel training records; Library budgets and purchase transactions for FYs 2010, 2011 and 2012; and other relevant documentation. We documented the library materials procurement process as it was related to us by Library personnel. That process consists of formally documented procedures and other procedures implemented by Library personnel but undocumented. We also performed selected attribute testing on the documented and undocumented procedures.

We conducted this audit in accordance with generally accepted government auditing standards. 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.



OFFICES OF THE COUNTY EXECUTIVE

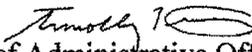
Isiah Leggett
County Executive

MEMORANDUM

Timothy L. Firestine
Chief Administrative Officer

October 11, 2012

TO: Edward Blansitt, Inspector General

FROM: Timothy L. Firestine, Chief Administrative Officer 

SUBJECT: Final Draft Report: Review of the Montgomery County Public Libraries Collection Management Procurement Internal Controls

I am in receipt of your memo and final draft report dated September 19, 2012, detailing the review conducted by your office of Montgomery County Public Libraries (MCPL) Collection Management Procurement Internal Controls. Your assessment of this issue has been thorough and fair. I am very encouraged that your review found no instances of fraud and no instances of exceptions in the accuracy and approvals of invoices we paid during the three-year period you tested. However, I fully agree that procedures related to the acquisition of library materials need to be improved, both in terms of enhancing the procedures and better ensuring compliance with established procedures. We have taken corrective actions and are in the process of making other improvements in response to your report.

Please find below specific responses to your audit recommendations.

IG Recommendation #1

Document and Consistently Implement All Library Control Procedures

“The Director of the Montgomery County Public Libraries Administration should ensure that procedures and controls needed to assure the integrity of its procurement process are established and documented. The Department should request guidance from the Department of General Services, Office of Procurement, and the Office of the County Attorney to facilitate implementation. The Department should, to the extent practicable, use the Office of Procurement’s existing guidance and forms available to all County agencies, rather than create its own description of procedures and controls.”

CAO Response to IG Recommendation #1

We agree with your finding and recommendations. The Department of Public Libraries has drafted a comprehensive manual which includes changes to procedures and new procedures. That manual is now with the Department of General Services, Office of Procurement, Department of Finance, Office of Internal Audit and the Office of the County Attorney for review and final guidance before its full implementation. This draft manual not only documents

Appendix B: Chief Administrative Officer's Response

Edward Blansitt, Inspector General
October 11, 2012
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the existing MCPL procedures and policies that have been in place to ensure MCPL's compliance with the County's procedure, but also includes several new procedures that will be instituted to ensure full compliance with the Procurement Procedures for Acquisition of Library Materials, and improve internal controls. These include an annual review of all contract activity that will be conducted by MCPL and then submitted to the Office of Procurement for review.

Also, our Office of Internal Audit in coordination with the other reviewing County departments/offices mentioned above will develop ways to conduct periodic external reviews of MCPL compliance.

IG Recommendation #2

Ensure Compliance with Stated Procedures. "The Director of the Montgomery County Public Libraries Administration should

- implement and monitor compliance with the Library's stated procedures and
- amend the period of performance and all relevant information in the contracts it continues to use to procure library materials."

CAO Response to IG Recommendation #2

We agree with your finding and recommendations. The Department of Public Libraries has already updated the documentation provided for contracts, replaced three expired contracts to date, with five more nearing completion; and included new processes to improve the compliance with the procedures, including improved monitoring. Once all the expired materials contracts have been replaced later this fall, the Department of Public Libraries will initiate a claim request per the Procurement Procedures for Acquisition of Library Materials to document and close out the records that correspond to the time that materials were purchased from vendors under expired contracts.

I thank you for the opportunity to respond to this review, and for your thorough and fair approach to the matter. If you have any questions, please feel free to contact me or Assistant Chief Administrative Officer Fariba Kassiri, who can be reached at (240) 777-2512 or Fariba.Kassiri@montgomerycountymd.gov.

TLF:bph

cc: B. Parker Hamilton, Director, Montgomery County Public Libraries
Kathleen Boucher, Assistant Chief Administrative Officer
Marc Hansen, County Attorney, Office of the County Attorney
Fariba Kassiri, Assistant Chief Administrative Officer
Joe Beach, Director, Office of Finance
David Dise, Director, Department of General Services
Pam Jones, Division Chief, Office of Procurement
Larry Dyckman, Manager, Office of Internal Audit, Offices of the County Executive

MEMORANDUM

November 21, 2012

TO: Vivian Yao, Legislative Analyst
Montgomery County Council

FROM: B. Parker Hamilton, Director
Montgomery County Public Libraries

SUBJECT: Montgomery County Public Libraries: Actions Regarding Inspector
General's Review of the Montgomery County Public Libraries' Collection
Management Procurement Internal Controls

In response to your question, below is a summary of the actions taken to-date by Montgomery County Public Libraries (MCPL) to address the issues raised by the Inspector General (IG) during the review of MCPL's Collection Management Procurement Internal controls. I was encouraged that the report found no instances of fraud, and that the sample of 45 payments from 2010 - 2012 found "no exceptions, all invoices agreed with the original orders for pricing, quantities and discounts, and all evidenced proper payment approvals" (IG Report, Page 7). Beginning with that basis, MCPL has taken the actions below to strengthen and document our procedures as recommended by the Inspector General.

Contract Documentation. During the review process, MCPL began work on the format and content of the memorandum that documents why the Department contracts with each particular materials vendor. The improved memorandum has been revised to include advice on the fairness and reasonableness of the pricing, that the vendor is not in a barred status, and more information on why the vendor has been selected (e.g., whether or not the contract represents a sole source for materials or that the selection achieves competition by allowing pricing and other factors to be compared between multiple contracts as described in the Purchasing Procedures for Acquisition of Library Materials). [Responds to IG Recommendation #2]

Basic Ordering Agreement (BOA) Contracts. Work on replacing the expired BOA contracts was also underway during the Inspector General's review. As of this date, six (6) of the ten (10) expired BOA contracts listed on page 9 of the Inspector General's report have been negotiated and signed. Two of the contracts are in their final draft stage and are expected to be signed shortly. The two remaining contracts did not have enough expected activity in FY12 and beyond to justify negotiating a contract.

MCPL convened a work group this October with senior staff from the Department of Finance, the Office of the County Attorney, the Office of Procurement, and the Office of Internal Audit to review MCPL's draft of a comprehensive manual and new procedures and practices developed to address the concerns raised in the Inspector General's report. MCPL provided a full draft of the manual to the work group in early October; the group met twice to review and edit the draft. The draft has just been submitted to the group for a final review. I expect to submit the manual to the Chief Administrative Officer for review and approval before the end of this month. [Responds to IG Recommendations #1] The key elements of the manual include:

- A. Comprehensive documentation of the procedures, staff units, and policies used by MCPL to implement the Purchasing Procedures for Acquisition of Library Materials (the regulation that governs the purchase of library materials). The manual fully describes the entire materials purchasing process, from budgetary planning through vendor selection to ordering, receiving, processing, and delivery.
- B. The manual documents the procedures and policies that comply with the County's procedures and does not have any problems identified in the review.
- C. The manual also includes several new, clarified, or improved procedures that will be instituted to ensure full compliance with the Procedures and improve internal controls. Highlights include:
 - Clarification of procedures regarding direct purchase of library materials without a contract.
 - New and improved format for the Delegation of Authority Memorandum.
 - Annual report to be submitted to the Director detailing library materials purchasing activities, with periodic reviews of vendor selection decisions.
 - Clarification of the timing of Direct Purchase Order creation (to be before orders are made).
 - Clarification of the signature requirement for receiving library materials.
 - Clarification of order approval processes.

I hope the summary provided fully answers your question. Please let me know if you have additional questions. Thank you.