



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued October 9, 2014

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## Massachusetts Board of Library Commissioners

For the period July 1, 2010 through September 30, 2012





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Office of the State Auditor  
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*Making government work better*

October 9, 2014

Mr. Gregory J. Shesko, Chair  
Massachusetts Board of Library Commissioners  
98 North Washington Street, Suite 401  
Boston, MA 02114

Dear Chairman Shesko:

I am pleased to provide this performance audit of the Massachusetts Board of Library Commissioners. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2010 through September 30, 2012. My audit staff discussed the contents of this report with management of the agency, and their comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts Board of Library Commissioners for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump  
Auditor of the Commonwealth

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## EXECUTIVE SUMMARY

This audit was conducted in order to review and evaluate the Massachusetts Board of Library Commissioners' (MBLC's) administration and oversight of certain programs and services, including the Library Services and Technology Act (LSTA) Grants to States Program, the Massachusetts Public Library Construction Program (MPLCP), State Aid to Public Libraries, and the Massachusetts Library System, and to determine whether those programs and services were conducted in compliance with applicable laws and regulations and supported by effective internal controls.

### *Summary of Findings*

- Grantees who receive funds under the MPLCP are required to submit to MBLC monthly construction reports that set forth project progress, financial information, and other details. During our audit period, a number of these reports to MBLC were missing or were submitted two to five months after the report month. Missing reports could prevent MBLC from receiving necessary project information. Delayed reports reduce the relevance and usefulness of the information being reported and could reduce MBLC's ability to make informed decisions about the grantees' performance and adherence to grant agreement provisions and to ensure that MPLCP grant funds are being properly accounted for and appropriately spent.
- MBLC does not require municipalities that have been awarded MPLCP grants to view contractor certification files at the Division of Capital Asset Management and Maintenance (DCAMM) before making a final determination of the lowest-bidding eligible and responsible general contractor for construction work on their library projects. Review of certification files would allow municipalities to further substantiate bidders' job performance on prior state projects and assess their ability to provide project services in a timely and professional manner. Municipalities that do not review contractor certifications before final selection are more likely to choose contractors whose performance on prior projects has been substandard, increasing the risk of project delays, non-completion, and the misuse of local and state dollars.
- Although MBLC's LSTA policies and procedures require site visits at libraries that have received sub-grants under the Grants to States Program to be performed by staff members known as LSTA consultants, we found no documentation that LSTA consultants were recording their observations and interactions with libraries. Therefore, there is inadequate assurance that libraries are complying with sub-grant requirements and that MBLC is administering and monitoring LSTA sub-grants in accordance with federal requirements. Also, without documentation, managers may not receive important programmatic information that they need to communicate to the parties involved in oversight of the LSTA sub-grant process, which could prevent those parties from making well-informed decisions about grants and/or the LSTA program.
- Although MBLC has an internal control plan (ICP), the plan lacks evidence to show that it has been updated at least annually, and it does not sufficiently cover the components required by the Office of the State Comptroller's (OSC's) guidelines. Without an updated ICP, MBLC may not

be able to ensure that it can achieve its objectives efficiently, effectively, and in compliance with applicable laws, regulations, grants, and contractual agreements and that its assets are properly safeguarded against loss, theft, and misuse.

### ***Recommendations***

- MBLC should establish adequate controls over the administration of its monthly construction reports. These controls should include formally establishing, and communicating to grantees, a requirement that the reports be submitted within the month after the report month's end, by a specific date. This requirement could be formally documented on the Request for Payment Form.
- MBLC should consider establishing penalties for late or unsubmitted reports and timestamp the receipt of all reports.
- MBLC should require MPLCP grant recipients to review DCAMM's contractor certification files for all potential bidders and use this information in their contractor-selection process.
- MBLC could improve its oversight of library construction projects by requiring grant recipients to document their findings and conclusions when reviewing contractor certification files. Findings and conclusions about the viewing of contractor certification files could include the three most recent evaluation scores of each contractor, the average score for the five most recent certification years, or any other information contained in the certification files that influenced the final selection of a general contractor.
- During our audit, MBLC updated its internal controls to require its staff to document site visits to sub-grant recipients on a designated site visit report form. The Office of the State Auditor believes that this was necessary and appropriate; we further recommend that this action be formally reflected in MBLC's written policies and procedures.
- MBLC should prepare an updated ICP to include and identify all eight components of enterprise risk management in conformance to the latest OSC guidelines. To this end, in preparing an updated plan, MBLC should refer to OSC's Internal Control Guide.
- MBLC should prepare an updated and improved high-level summarization of internal controls that contains cross-referencing to lower-level department policies and procedures and the MBLC mission statement.
- MBLC should assess the risks at each department and then ensure that the ICP's risk section captures all significant risks to MBLC's goals and objectives. It should also assess the likelihood and impact of occurrence of each risk and include a risk response in the plan, along with a mitigation plan aimed at improving the likelihood of MBLC's achieving its mission, goals, and objectives in all fiscal and programmatic areas.
- MBLC should ensure that the Internal Control Questionnaire submitted to OSC each year is accurate.

***Post-Audit Action***

MBLC took the following actions in response to our findings and conclusions:

- MBLC is in the process of drafting updates to 605 Code of Massachusetts Regulations (CMR) 6 to require municipalities that have been awarded library construction grants to review the DCAMM contractor certification files of the lowest responsible, eligible bidders for general contract work before final contractor selection. MBLC plans to present its CMR updates to its commissioners. In addition, MBLC intends to improve its monitoring of grant recipients to ensure the timely submission of construction reports.
- At the conclusion of our audit, management for MBLC's LSTA Grants to States Program was in the process of updating its policies and procedures to reflect current grant conditions. As of June 2013, MBLC requires its LSTA consultants to document site visits made to libraries that are LSTA sub-grant recipients on a designated site visit report form. The site visit report form requires the following to be documented: (1) date of visit, (2) project title, (3) library name, (4) project director name, (5) progress of the project and whether the project is on schedule, (6) objectives achieved or partially met, (7) problems identified, (8) steps taken to evaluate the project, and (9) any additional necessary comments by the consultant.
- MBLC is creating written policies and procedures for each of its programs as a means to document its control activities and further support its ICP.

## OVERVIEW OF AUDITED AGENCY

### *Background*

The Massachusetts Board of Library Commissioners (MBLC) was established in 1890 under Chapter 78 of the Massachusetts General Laws and is governed by nine commissioners appointed by the Governor. The board chair is appointed by the commissioners, and the commissioners hire a director, who is responsible for administration of MBLC's programs and advisory services. According to its website, MBLC has "the statutory authority and responsibility to organize, develop, coordinate and improve library services throughout the Commonwealth," and its mission includes "[providing] every resident of the Commonwealth with full and equal access to library information resources regardless of geographic location, social or economic status, age, level of physical or intellectual ability, or cultural background." MBLC administers both state and federal grant programs for libraries of all types throughout the Commonwealth. During our audit period, these grant programs amounted to \$120,624,831 in state and federal revenue and included the following:

- State Aid to Public Libraries (\$20,470,971). State Aid to Public Libraries is an annual, voluntary program with the purpose of encouraging municipalities to support library services and resource sharing and to help compensate for additional costs and disparities among municipal funding capacities.
- The Massachusetts Public Library Construction Program (MPLCP) (\$90,059,278). The MPLCP assists municipalities in developing public libraries through the renovation and expansion of existing library buildings or the construction of new facilities.
- The federal Library Services and Technology Act (LSTA) Grants to States Program (\$10,094,582). Each year, MBLC receives an allotment based on population and the level of appropriation from the federal Institute of Museum and Library Services. The LSTA Grants to States Program allows MBLC to design grant programs from which awards are provided to eligible public libraries to provide new services or enhance existing ones.

See the appendix to this report for additional detail regarding sources of MBLC's revenue.

MBLC also oversees the Massachusetts Library System (MLS), which was appropriated \$20,570,303 in state funding during the audit period. Because of a significant decrease in funding to regional libraries for fiscal year 2011, MLS was created on July 1, 2010 as a state-supported collaborative to replace six individual regional libraries. MLS is designated as the administrative entity to provide core regional services to libraries and library users; its services include training and professional development, cooperative purchasing, delivery, interlibrary loans, research and development, and

other programs. Additionally, MBLC provides services related to statewide database licensing; federally funded discounts for computer and telecommunication products; and general advisory services to Commonwealth libraries and their associates, e.g., library trustees.

## **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts Board of Library Commissioners (MBLC) for the period July 1, 2010 through September 30, 2012.

We conducted this performance 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.

The scope of our audit included an examination of MBLC's administration and oversight of certain state and federal grant and aid programs. The objectives of our audit were to (1) review and evaluate MBLC's process for distributing State Aid to Public Libraries to ensure that libraries complied with applicable laws and regulations in order to be considered for state aid; (2) review and evaluate MBLC's process for awarding sub-grants to libraries under the Library Services and Technology Act (LSTA) Grants to States Program and the procedures in place to monitor the use of the funds given under this program to ensure that they complied with applicable laws and regulations;<sup>1</sup> (3) review and evaluate MBLC's process for awarding grants under the Massachusetts Public Library Construction Program (MPLCP) to confirm that sufficient controls were in place to ensure that funds were competitively awarded to eligible municipalities; (4) review and evaluate MBLC's monitoring of library construction projects to ensure that funds were spent appropriately under the MPLCP and that projects were completed in a timely manner and in accordance with project plans and applicable laws, rules, and regulations; (5) determine whether the minimum financial commitment required of municipalities for projects funded under the MPLCP inhibited poorer municipalities from applying for funding and what assistance MBLC provided to poorer municipalities if they could not meet the minimum financial commitment; and (6) determine whether MBLC exercised proper oversight of its sub-agency, the Massachusetts Library System (MLS).

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<sup>1</sup> Specifically, 20 U.S. Code Chapter 72, Subchapter II, and 815 Code of Massachusetts Regulations 2.00.

To achieve our audit objectives, we performed the following activities:

- We conducted interviews with various MBLC management personnel and reviewed documentation to support fiscal year 2011 and 2012 State Aid to Public Libraries awards, including State Aid to Public Libraries Application and Compliance Forms<sup>2</sup> and waivers with supporting documentation for libraries that could not meet funding and expenditure requirements. We also reviewed the formulas used to make up the components of each award to ensure that they were correctly calculated and reflected the information in the libraries' applications, and we reviewed population and equalized valuation figures (estimated full and fair cash value of local property) provided by the Massachusetts Department of Revenue. For the purposes of this audit, we tested a non-statistical sample of 32 municipalities from a population of 52 that represented municipalities receiving 0.5% or more of the total state aid awarded during the audit period. Because our sample was non-statistical, our results could not be projected to the population.
- We reviewed MBLC's policies and procedures for the LSTA program, the sub-grant award approval process, the eligibility of libraries that received sub-grants and their compliance with application and reporting requirements, library spending of sub-grants, and documentation detailing advisory functions performed by MBLC for LSTA sub-grant recipients. LSTA sub-grants are funds made available to libraries, MLS, and other cooperating library groups to support statewide initiatives that enhance the services local libraries supply and to address long-term goals.
- We examined Massachusetts's ability to meet the state match required by the federal government to receive an LSTA grant, as well as MBLC's allocation of federal grant funds, its reports to the federal government, and its sub-grant programs, to determine whether they represented the federal government's goals for the LSTA program.
- To perform our testing, we chose a non-statistical sample of 10 randomly selected grants from a population of 65 grants awarded under six program groups that were determined to have distributed the greatest amount of LSTA funding during the audit period. Our sample size was based on an assessment that the LSTA program was of low risk for mismanagement, as federal reviews and independent evaluations concluded that MBLC's administration of the Grants to States Program was successful and compliant with federal law. Because our sample was non-statistical, our results could not be projected to the population.
- We tested all 15 library construction projects that received grant funding during our audit period. To conduct our testing, we reviewed applicable laws and regulations, as well as documentation of the grant process from the application to the construction phase. This documentation included grant notices issued by MBLC, applications submitted by each municipality, reviews and rankings of each project by independent non-agency reviewers, site visit records, recommendations to the board for awards, provisional grant award letters and grant agreements, and post-grant-award documentation.

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<sup>2</sup> Application and Compliance Forms included the Municipal Appropriation Worksheet, which details a city or municipality's financial commitment to its library, and the Materials Expenditure Requirement Worksheet, which demonstrates that a library spends a reasonable portion of its budget on library materials.

- We met with staff members from the Division of Capital Asset Management and Maintenance to review and discuss contractor certification files for a sample of three general contractors. During our audit, only 9 of the 15 above-mentioned construction projects had reached a phase requiring procurement of a general contractor. The three general contractors included in our testing were used on 5 of these 9 projects and therefore represented 56% of the general contractor population. Of the three general contractors, one was used on 3 projects, and the two others were each used on a single project.
- We conducted interviews with the MPLCP's staff and gained an understanding of the three municipalities that had to turn down their provisional MPLCP grant awards during our audit period because they could not raise matching funds.
- In order to assess whether MBLC exercised proper oversight of MLS, we determined that MLS, as a registered 501(c)(3) nonprofit organization, filed and completed all necessary annual documentation required by the Office of the Attorney General's Non-Profit Organizations / Public Charities Division. We also performed a reconciliation of MLS's spending to its approved budget and activities by MBLC. Additionally, we reviewed all MLS monthly expenditure reports and quarterly payment request reports submitted to MBLC in fiscal years 2011 and 2012 to determine their timeliness and completeness.

Based on our audit, we have concluded that for the period July 1, 2010 through September 30, 2012, MBLC's procedures for distributing State Aid to Public Libraries, awarding sub-grants to libraries under the LSTA Grants to States Program, and awarding grants under the MPLCP are effective. In addition, there is an effective process in place to ensure that the minimum financial commitments of municipalities are met, and there is proper oversight of MLS. However, MBLC needs to improve its procedures for monitoring the LSTA Grants to States Program and the MPLCP and update its internal control plan.

## DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

### 1. Monitoring of library construction projects could be improved.

#### a. Monthly reports on library construction projects are not being submitted to the Massachusetts Board of Library Commissioners in a timely manner.

Grantees who receive funds under the Massachusetts Board of Library Commissioners (MBLC) Massachusetts Public Library Construction Program (MPLCP) are required to submit to MBLC monthly construction reports that set forth project progress, financial information, and other details. During our audit period, a number of these reports to MBLC were missing or were submitted two to five months after the report month. Missing reports could prevent MBLC from receiving necessary project information. Delayed reports reduce the relevance and usefulness of the information being reported and could reduce MBLC's ability to make informed decisions about the grantees' performance and adherence to grant agreement provisions and to ensure that MPLCP grant funds are being properly accounted for and appropriately spent.

Relevant information on library construction reports includes the following:

- change orders that may cause unnecessary financial impact to the project or change the project design in such a way that it substantially differs from the original design for which the grant was awarded;
- change orders that have not been approved and that cause project delays or represent work that has been performed but is not officially part of the original contract and may cause liability issues;
- financial details such as local funds spent/remaining and grant funds spent/remaining, which would allow MBLC to track unforeseen costs or require the return of remaining grant funds for projects that are under budget;
- narratives provided by project personnel that would allow MBLC to gain an understanding of the relationships among the parties involved on the project;
- safety concerns;
- subcontractors used on the project.

The manual *Designing and Constructing Public Facilities*, issued by the Massachusetts Office of the Inspector General, defines a change order as "owner-approved modifications to the construction contract that affect the contract scope, price, and/or schedule." The regulation 605 Code of Massachusetts Regulations (CMR) 6.04 requires MBLC grant applicants to agree to an

assurance that prior approval from MBLC will be obtained for significant budget, program, or plan changes and revisions. Change orders that are not significant are agreed to and approved by the municipality, the architect, and the contractor.

Of the 165 monthly construction reports we examined for all 15 library construction projects<sup>3</sup> that received funding during our audit period, 38 reports (23%) were submitted in the second to fifth months after the report month, and submission dates for 9 reports could not be determined because there was no timestamp indicating when they were received. We also determined that 57 monthly reports were missing for the 15 projects.

### ***Authoritative Guidance***

Under Chapter 647 of the Acts of 1989, state agencies such as MBLC are required to establish effective internal controls over all of their activities in accordance with internal control guidelines established by the Office of the State Comptroller (OSC). Those guidelines are set forth in OSC's Internal Control Guide, which states that "periodically, policies and procedures should be revised to mitigate risk and eliminate redundancy. They must also be communicated internally and externally, as necessary."

According to 605 CMR 6.05(2)(c), MPLCP grant applicants, to be eligible for grant agreements, must agree to adhere to a set of 37 assurances as part of their grant agreement. These assurances require, in part, that grant recipients "file required reports" that include a narrative of the status of the construction project by the library director, highlighting any significant challenges and concerns during the reporting month, and a construction program report informing MBLC of the status of construction. These assurances specifically state,

*Prior approval from the Board will be obtained for significant budget, program or plan changes and revisions including deduct change orders. . . . The project will be completed as described in the application and approved by the Board. Any significant reductions in the project's program shall require prior approval.*

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<sup>3</sup> The 15 library construction projects totaled \$45,165,881 in provisional MPLCP grant awards. Provisional grant awards are not made in lump-sum distributions; rather, grant payments are disbursed incrementally based on when a library meets project milestones prescribed by MBLC. Total payments for the 15 MPLCP grants during the period July 1, 2010 through September 30, 2012 amounted to \$29,542,687.

Additionally, MBLC's Request for Payment form,<sup>4</sup> which grant recipients agree to complete and adhere to, requires, as a condition of requesting and receiving funds from the state for the third and fourth/final installments of their grant, that the required monthly reports, including narratives, have been filed.

OSC's procurement/contracts policy "State Grants and Federal Sub-Grants" requires departments to "maintain a grant file . . . with complete records of a grant or grant program which shall include . . . grant reports, document approvals . . . and records of payments."

### ***Reasons for Delayed Monthly Construction Reports***

MBLC has not established adequate controls over the submission of monthly construction reports. Specifically, it has not established specific due dates for these reports and communicated these due dates to grantees. MBLC's Request for Payment form, which MPLCP grant recipients are required to complete, lacks specific guidance on monthly construction report remittance requirements, such as a due date by which each monthly report must be received by MBLC.

In addition, because MBLC feels that library building consultants are already working with project members as the project progresses, the agency believes that communication among project participants is adequate even if MBLC does not verify receipt of monthly reports, and MBLC does not wish to delay a project for that reason. It also allows grantees to submit monthly construction reports late without any penalty, even when it determines that reporting requirements needed to verify performance and the appropriate use of grant funds have not been followed. MBLC allows grant recipients to play "catch-up" with their monthly reports: we noted many instances where two monthly construction reports were sent together and two instances where four reports were sent together. Finally, MBLC does not consistently timestamp reports when it receives them from grantees so that it can identify recurring problems with promptness.

### ***Recommendations***

- MBLC should establish adequate controls over the administration of its monthly construction reports. These controls should include formally establishing, and

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<sup>4</sup> The Request for Payment form was created by MBLC and details documents and project milestones that must be completed before payments are received. Payments are received in four increments (the first three payments are 30% of the grant amount, and the final payment is 10%), and each incremental payment has its own set of requirements.

communicating to grantees, a requirement that the reports be submitted within the month after the report month's end, by a specific date. This requirement could be formally documented on the Request for Payment Form.

- MBLC should consider establishing penalties for late or unsubmitted reports and timestamp the receipt of all reports.

### ***Auditee's Response***

*The MBLC requires that MPLCP construction grant recipients submit reports summarizing project progress and providing financial information. To ensure that all monthly reports are submitted and each is submitted on time, MPLCP is in the process of implementing new controls.*

- *Monthly Reports Due—Monthly reports requirement has changed*
- *From:*
  - *Director Report beginning with first grant payment through extent of project*
  - *Construction Report beginning with the signing of the general contractors contract*
- *To one Project Report beginning with first grant payment.*
- *Deadlines—A firm deadline has been established as the last day of the month after the reporting month, i.e., the report covering the month of March is due on the last day of April. New MPLCP alerts will be issued:*
- *Email notices to be sent five days before the deadline*
- *Reports will be accepted electronically followed by reports with original signature due within five days following the report filed electronically, i.e., March report deadline*
  - *Electronically due by April 30*
  - *Mailed report due by May 5*
- *Penalties—No penalties are levied as the construction reporting responsibility is with the municipality.*

### ***Auditor's Reply***

Based on its response, MBLC is taking measures to address our concerns on this matter.

**b. MBLC does not require municipalities to review contractor certification files before selecting general contractors.**

MBLC does not require municipalities that have been awarded MPLCP grants to view contractor certification files<sup>5</sup> at the Division of Capital Asset Management and Maintenance (DCAMM) before making a final determination of the lowest-bidding eligible and responsible<sup>6</sup> general contractor<sup>7</sup> for construction work on their library projects. Review of certification files would allow municipalities to further substantiate bidders' job performance on prior state projects and assess their ability to provide project services in a timely and professional manner. Municipalities that do not review contractor certifications before final selection are more likely to choose contractors whose performance on prior projects has been substandard, increasing the risk of project delays, non-completion, and the misuse of local and state dollars.

When a municipality selects a general contractor, MBLC requires only that the municipality supply it with project information and specifications provided to potential bidders and the final contract between the municipality and the selected general contractor. Upon completion of a project, in accordance with 605 CMR 6.05(2)(c), a municipality must "file a final evaluation form on the performance of contractors on the project as required by the Division of Capital Asset Management [and Maintenance]." However, there is no formal requirement that municipalities use DCAMM's information on contractor performance when procuring a contractor to use in library construction projects.

However, DCAMM's information can be relevant in procurement decisions. For example, a DCAMM contractor certification file for a general contractor awarded \$11,056,719 in provisional grants and hired by three municipalities in our sample for library construction projects indicated that two of these municipalities were dissatisfied with the quality of work performed. These two municipalities filed project evaluations at the 50% completion phase that gave the contractor what DCAMM considered a failing grade (80 or lower).

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<sup>5</sup> Contractor certification files are available for public view at DCAMM. The certification files contain contract evaluation forms completed by property owners and managers at the 50% and final phases of a project. The files also contain contractors' average ratings for prior certification years. In order to bid on certain projects that will cost more than \$100,000, a contractor must first be certified by DCAMM.

<sup>6</sup> In accordance with Chapter 149, Section 44A(2)(D), of the Massachusetts General Laws, contracts for the construction or reconstruction of a building estimated to cost more than \$100,000 are to be awarded to the lowest responsible and eligible general bidder.

<sup>7</sup> A general contractor in the context of this report is the person or entity hired by a municipality to build or renovate a library in accordance with the project's design.

Files for several other project owners (not affiliated with the MPLCP or MBLC) also showed failing grades<sup>8</sup> for the contractor on public-works projects that occurred before the library projects. The files also gave details of numerous lawsuits that arose from various parties' dissatisfaction with the contractor. DCAMM received these other ratings before the three municipalities in our test hired this general contractor, so they would have been available to the municipalities before they selected a contractor.

### ***Authoritative Guidance***

Chapter 149, Section 44D, of the Massachusetts General Laws requires awarding authorities (such as a library's municipality) to complete and file an evaluation form for a general contractor's performance on a construction project. The form has three main categories (Project Management, Quality of Workmanship, and On-Site Supervisory Personnel Rating), each with various subcategories that must be completed by the awarding authority.

Although evaluations for past projects are available for public viewing, awarding authorities are not required, either legally or through MBLC regulations or policies, to review the documents before determining the lowest-bidding responsible and eligible contractor to bid for construction. Instead, Chapter 149, Section 44D(6), requires awarding authorities to "consider the information submitted by the bidder in the update statement."<sup>9</sup> If the awarding authority determines that the low bidder is not responsible and eligible, the awarding authority shall reject the bidder and evaluate the next low bidder." However, the DCAMM certification file includes information such as evaluations from past projects. Without reviewing a contractor's performance on past projects, municipalities may not be able to adequately determine whether bidders are both responsible and eligible. Therefore, successful selection of general contractors requires taking advantage of all available resources, which would include reviewing a contractor's certification file along with traditional bidding documents.

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<sup>8</sup> Grades provided by evaluators before libraries hired the contractor, for the period of October 2005 through February 2011, were 100, 81, 90, 89, 80, 100, 52, and 80.

<sup>9</sup> An update statement is completed by the contractor and details completed projects, currently held contracts, project performance, legal or administrative proceedings, compliance with laws, supervisory personnel, whether there have been changes in the business organization or financial condition, and completed construction projects submitted to DCAMM.

***Reasons MBLC Did Not Require Certification File Review***

MBLC officials told OSA that they were unaware that a municipality's review of contractor certification files could enhance the general contractor-selection process.

***Recommendations***

- MBLC should require MPLCP grant recipients to review DCAMM's contractor certification files for all potential bidders and use this information in their contractor-selection process.
- MBLC could improve its oversight of these projects by requiring grant recipients to document their findings and conclusions when reviewing contractor certification files. Findings and conclusions about the viewing of contractor certification files could include the three most recent evaluation scores of each contractor, the average score for the five most recent certification years, or any other information contained in the certification files that influenced the final selection of a general contractor.

***Auditee's Response***

*MBLC officials were aware of DCAMM evaluations of contractors and understood that as standard practice for municipalities to consult DCAMM evaluations in the process of evaluating the work of general contractors.*

...

*To ensure that municipalities exercise due diligence in evaluating past work of general contractors bidding on MPLCP projects, the MBLC has changed the regulations governing the MPLCP and now requires evidence that DCAMM certification files have been checked.*

- *Regulations—Library Improvement Program—Public Library Construction 605 CMR 6.09(1)(c) have been changed to include consultation of*

***The Department of Capital Asset Management (DCAM) ratings for the five years for the top five general contractors bidding on the project***

- *Reporting—Upon issuing the second grant payment evidence must be shown that DCAM ratings have been used in the evaluating a general contractor's past work. MPLCP projects must fill out and submit a DCAMM Ratings Check form and submit with the second Payment Request.*

***Auditor's Reply***

Based on its response, MBLC is taking measures to address our concerns on this matter.

***Post-Audit Action***

MBLC is in the process of drafting updates to 605 CMR 6 to require municipalities that have been awarded library construction grants to review the DCAMM contractor certification files of the lowest responsible, eligible bidders for general contract work before final contractor selection.

MBLC plans to present its CMR updates to its commissioners. In addition, MBLC intends to improve its monitoring of grant recipients to ensure the timely submission of construction reports.

**2. Library Services and Technology Act consultants did not document formal site visits to sub-grantees.**

Each year, MBLC receives an allotment from the federal Library Services and Technology Act (LSTA) Grants to States Program. According to MBLC's website, the board uses the LSTA funding to "support statewide initiatives that enhance the services local libraries can supply and a competitive grant program that provides local libraries the financial resources to develop programs and innovative ideas." Although MBLC's LSTA policies and procedures require site visits at libraries that have received sub-grants<sup>10</sup> to be performed by staff members known as LSTA consultants, we found no documentation that LSTA consultants were recording their observations and interactions with libraries. Therefore, there is inadequate assurance that libraries are complying with sub-grant requirements and that MBLC is administering and monitoring LSTA sub-grants in accordance with federal requirements. Also, without documentation, managers may not receive important programmatic information that they need to communicate to the parties<sup>11</sup> involved in oversight of the LSTA sub-grant process, which could prevent those parties from making well-informed decisions about grants and/or the LSTA program.

***Authoritative Guidance***

Part 3 of the Office of Budget and Management's Circular A-133 Compliance Supplement for 2013, "Compliance Requirements," includes a sub-recipient monitoring requirement for pass-through entities (such as MBLC, which receives a federal LSTA grant from which it provides sub-grants to libraries). It states,

*A pass-through entity is responsible for. . . . Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are reached.*

***Reasons for a Lack of Documentation of Site Visits***

At the time of our field work, no policy or procedure was in place that required documentation of site visits to LSTA sub-grant recipients.

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<sup>10</sup> MBLC receives a federal LSTA grant from which it awards smaller sub-grants to libraries.

<sup>11</sup> MBLC management; the State Advisory Council on Libraries; and the Institute of Museum and Library Services, the federal overseer of states' administration of the LSTA program.

***Recommendation***

During our audit, MBLC updated its internal controls to require its staff to document site visits to sub-grant recipients on a designated site visit report form. OSA believes that this was necessary and appropriate; we further recommend that this action be formally reflected in MBLC's written policies and procedures.

***Auditee's Response***

*As of June 2013, MBLC requires its LSTA consultants to document site visits made to libraries that are LSTA sub-grant recipients on a designated site visit report form. The site visit report form requires the following to be documented: (1) date of visit, (2) project title, (3) library name, (4) project director name, (5) progress of the project and whether the project is on schedule, (6) objectives achieved or partially met, (7) problems identified, (8) steps taken to evaluate the project, and (9) any additional necessary comments by the consultant.*

***Auditor's Reply***

Based on its response, MBLC is taking measures to address our concerns on this matter.

***Post-Audit Action***

At the conclusion of our audit, management for MBLC's LSTA Grants to States Program was in the process of updating its policies and procedures to reflect current grant conditions.

**3. MBLC's internal control plan needs improvement.**

Although MBLC has an internal control plan (ICP), the plan lacks evidence to show that it has been updated at least annually, and it does not sufficiently cover the components required by OSC's guidelines. Without an updated ICP, MBLC may not be able to ensure that it can achieve its objectives efficiently, effectively, and in compliance with applicable laws, regulations, grants, and contractual agreements and that its assets are properly safeguarded against loss, theft, and misuse.

Our review of MBLC's ICP disclosed the following issues:

- While MBLC stated that it continuously reviewed and updated its ICP, its current ICP (dated January 5, 2006) does not contain evidence, such as dates, of any ICP updates. In addition, MBLC certified in its Internal Control Questionnaires<sup>12</sup> (ICQs) submitted to OSC for fiscal

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<sup>12</sup> Each year, OSC issues a memo (Fiscal Year Update) to internal control officers, single audit liaisons, and chief fiscal officers instructing departments to complete an Internal Control Questionnaire designed to provide an indication of the effectiveness of the Commonwealth's internal controls. In the Representation section of the questionnaire, the department head, chief financial officer, and internal control officer confirm that the information entered into the questionnaire is accurate and approved.

years 2011 and 2012 that it had updated the ICP within the past year, but because MBLC lacked evidence to substantiate this certification, MBLC could not assure us that its ICP had been updated at least annually. Incorrect information on these questionnaires prevents OSC from effectively assessing the adequacy of MBLC's internal control system.

- The ICP does not clearly include and identify all eight components of enterprise risk management (ERM) as described in the OSC Internal Control Guide. Specifically, it did not include objective setting, event identification, and risk response for MBLC's financial operations. Also, although the ICP included some policies and procedures for MBLC departments, they were inconsistent from one department to the next and did not include related risks cross-referenced to internal controls established to mitigate the risks for the various grant programs.
- A risk assessment had not been sufficiently developed and fully integrated throughout all MBLC's departments to determine how the greatest risks to its mission, goals, and objectives would be identified and mitigated. Specifically, MBLC had not performed a comprehensive analysis of the risks within each department, summarized in a top-level risk assessment, and did not identify the likelihood and impact of each risk or a specific risk response.

In addition, our assessment of MBLC's ICP revealed that, although MBLC had established goals and objectives, they were general, not agency-wide and specific for each department. Some detailed objectives are included in the ICP, but they pertain only to financial operations: payroll/personnel, cash disbursements, inventory, and reporting. Although there are fact sheets that provide descriptions and other relevant information about each individual program (such as authorization, funding, or eligibility), the fact sheets do not include any type of risk assessment or a description of the internal controls in place to ensure that the programs' objectives are achieved.

### ***Authoritative Guidance***

The OSC Internal Control Guide stresses the importance of internal controls and the need for departments to develop ICPs, defined as follows:

*The Office of the Comptroller defines an internal control plan as a high level department-wide summarization of the department's risks and the controls used to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures.*

The Internal Control Guide requires that risk assessments and ICPs be conducted by state agencies and departments and that ICPs be reviewed and updated as conditions warrant, but at least annually.

***Reason for Issues with ICP***

MBLC officials told us that they felt they were successfully administering their programs and objectives through other forms of communication to the staff in addition to the documented policies in their ICP.

***Recommendations***

MBLC should take the following actions:

- Prepare an updated ICP to include and identify all eight components of ERM in conformance to the latest OSC guidelines. To this end, in preparing an updated plan, MBLC should refer to OSC's Internal Control Guide.
- Prepare an updated and improved high-level summarization of internal controls that contains cross-referencing to lower-level department policies and procedures and the MBLC mission statement.
- Assess the risks at each department and then ensure that the ICP's risk section captures all significant risks to MBLC's goals and objectives. Assess the likelihood and impact of occurrence of each risk and include a risk response in the plan, along with a mitigation plan aimed at improving the likelihood of MBLC's achieving its mission, goals, and objectives in all fiscal and programmatic areas.
- Ensure that the ICQ submitted to OSC each year is accurate.

***Auditee's Response***

In response to this matter, MBLC stated, "[MBLC] addresses and reviews its Internal Control Plan annually. Areas of financial controls are reviewed and amended as necessary." The agency provided a list of procedural changes that had taken place over the previous six months, including a new system for tracking time and attendance and a new procurement system. In addition, MBLC indicated that it believed that the submission of OSC's annual ICQ was certification that the ICP had been reviewed. Also, since additional ICP documentation is needed, MBLC has requested assistance and advice from OSC to comply with the ICP requirements. MBLC stated that it had received some assistance from OSC but still needed further guidance.

***Auditor's Reply***

MBLC told us that it updated its ICP annually. We continue to recommend that it document its reviews and updates.

MBLC also indicated that it was taking steps to improve its internal controls. In addition to these improvements, we continue to recommend that MBLC update its ICP to include all the elements required by OSC's Internal Control Guide. If necessary, the agency should continue to seek guidance from OSC regarding areas of the ICP that need improvement. In addition, before submitting its ICQ, MBLC should ensure that it can document that it has reviewed and updated its ICP as reflected on the questionnaire.

***Post-Audit Action***

MBLC is creating written policies and procedures for each of its programs as a means to document its control activities and further support its ICP.

## APPENDIX

### Massachusetts Board of Library Commissioners' Revenue by Type and Total Awards for Fiscal Year 2011 through September 30, 2012

Type of Revenue	Source	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013 through September 30	Total for Audit Period	Total Awards Provided under the Program
	7000-9090 State Bond Authorization under Chapter 304 of the Acts of 2008 (carry forward balance as of fiscal year 2011)			\$ 90,059,278	\$ 90,059,278	15
State Funding	7000-9501 State Aid to Public Libraries	\$ 6,823,657	\$ 6,823,657	\$ 6,823,657	\$ 20,470,971	682
Federal Funding	7000-9702 Federal Grant: Library Services and Technology Act	\$ 3,537,939	\$ 3,323,269	\$ 3,233,374	\$ 10,094,582	125
Total					<u>\$ 120,624,831</u>	<u>822</u>