



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

Making government work better

Official Audit Report – Issued August 12, 2016

George Fingold Library—State Library of Massachusetts

For the period July 1, 2013 through June 30, 2015





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Making government work better

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Ms. Elvernoy Johnson, State Librarian
George Fingold Library
24 Beacon Street
State House, Room 341
Boston, MA 02133

Dear Ms. Johnson:

I am pleased to provide this performance audit of the George Fingold Library. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2013 through June 30, 2015. My audit staff discussed the contents of this report with management of the library, whose comments are reflected in this report.

I would also like to express my appreciation to the George Fingold Library for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written in a cursive style.

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW OF AUDITED ENTITY.....	3
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	4
DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE.....	7
1. The George Fingold Library’s internal controls over inventory and payroll were not sufficient, although they had been reported as such to the Office of the State Comptroller.	7
a. The George Fingold Library did not have a sufficient inventory process for fixed assets.	7
b. GFL did not have sufficient payroll and personnel policies.....	8
c. GFL incorrectly reported to OSC that its controls over the above matters were sufficient.	9
2. GFL’s inventory process for donated items needs improvement.....	11
OTHER MATTERS	14

LIST OF ABBREVIATIONS

CFO	chief fiscal officer
EOAF	Executive Office for Administration and Finance
GFL	George Fingold Library
HRD	Human Resources Division
ICQ	Internal Control Questionnaire
IT	information technology
MMARS	Massachusetts Management Accounting and Reporting System
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
OSD	Operational Services Division
SSTA	Self-Service Time and Attendance

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the George Fingold Library (GFL) for the period July 1, 2013 through June 30, 2015.

We undertook this performance audit because GFL is a state agency that is required to be audited by OSA at least once every three years. In the audit, we examined certain aspects of GFL's operations related to library holdings, revenue collected, funds expended, payroll, and property and equipment.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1a Page 7	For fixed assets, GFL had not established written policies and procedures for inventory, did not maintain an inventory list, did not conduct an annual physical inventory, and had not attached inventory tags to all items.
Finding 1b Page 8	GFL did not have sufficient policies and procedures for using the Commonwealth's Self-Service Time and Attendance (SSTA) system; providing notification of absence due to illness; or approving timesheets, vacation time, or personal time.
Finding 1c Page 9	GFL provided inaccurate information to the Office of the State Comptroller (OSC) regarding its internal controls over inventory and payroll procedures.
Recommendations Page 10	<ol style="list-style-type: none">1. GFL should establish and implement a formal asset-management program and related policies and procedures that cover all phases of an inventory process, adequately track and identify individual items by practices such as tagging assets with identification numbers, ensure that fixed assets are properly and accurately recorded, require an accurate list of fixed assets, and require an annual physical inventory and reconciliation of fixed assets.2. GFL should develop its own written policy for employee time and attendance, including procedures for requests, approval, and documentation of vacation, personal, and sick time and any other absences. The procedures should also reflect the implementation of SSTA.3. GFL should ensure that the Internal Control Questionnaire (ICQ) it submits to OSC each year is accurate. If necessary, GFL should request guidance from OSC on these matters.4. GFL should retain a printed, approver-signed copy of its certification of its ICQ representations.

Finding 2 Page <u>11</u>	GFL's inventory process for donated items needs improvement.
Recommendation Page <u>12</u>	GFL should develop policies and procedures for identifying all works of art and historical treasures donated to it, determining their historical acquisition costs or appraised values at the time of donation, and recording them in the state's Massachusetts Management Accounting and Reporting System.

OVERVIEW OF AUDITED ENTITY

The George Fingold Library (GFL) was established in 1826 as the State Library of Massachusetts under Section 1 of Chapter 380 of the Acts of 1960. GFL is the custodian of important historical and government documents, photographs, and maps. According to its website,

The Mission of the State Library is to support the research and information needs of government, libraries and people through innovative services and access to a comprehensive repository of state documents and other historical items.

Section 3 of Chapter 412 of the Acts of 1984 established a depository program that requires each state agency to give GFL eight copies of its publications for reference. Three of the eight copies are cataloged and added to GFL's permanent collection. The other five are distributed among the Library of Congress and the state's regional public libraries.

GFL is overseen by a board of trustees that, according to Section 33 of Chapter 6 of the Massachusetts General Laws, is made up of the Senate President, Speaker of the House, and Secretary of the Commonwealth, who act as ex officio trustees, and four other members appointed by the Governor for four-year terms.

In fiscal years 2014 and 2015, GFL received state-funded appropriations of \$832,605 and \$856,250, respectively. GFL employed 10 full-time and 2 part-time employees during our audit period. It is located in the Massachusetts State House in Boston.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the George Fingold Library (GFL) for the period July 1, 2013 through June 30, 2015. In performing our audit testing, we determined that it was necessary to extend our audit period back to July 1, 2001 when examining GFL's controls over assets to review works of art and historical treasures and back to July 1, 2009 when examining purchases of non-generally accepted accounting principles capital assets.

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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Does GFL maintain adequate controls over holdings such as books and publications, including management, storage, security, visibility, and accountability?	Yes
2. Did GFL maintain adequate controls over revenue and non-payroll expenditures?	Yes
3. Did GFL have adequate controls over payroll, were these controls complied with, and was payroll accurately calculated?	No; see Finding 1b
4. Does GFL have effective inventory controls over its fixed assets?	No; see Finding 1a
5. Does GFL have effective controls over assets donated to it?	No; see Finding 2

In the course of our audit, we also determined that GFL submitted its 2014 and 2015 Internal Control Questionnaires to the Office of the State Comptroller (OSC) without certifying the accuracy of its responses in accordance with OSC instructions (Finding [1c](#)).

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

- We interviewed GFL's personnel and reviewed relevant documents, statutes, and regulations concerning its holdings. We also reviewed GFL's policies and procedures established for the maintenance, protection, and circulation of holdings. In addition, we verified the reliability and accuracy of the online catalog by tracing a nonstatistical random sample of holdings to the actual holdings in the library. By tracing the extracted data to the source documents, we determined that the information in the online catalog was accurate, complete, and sufficiently reliable for the purposes of our audit.
- We assessed GFL's controls over the inventory of its holdings by selecting a nonstatistical random sample of 60 titles from a population of 107,613 in its online catalog and requesting these titles to determine whether holdings were properly tracked, safeguarded, and accounted for and whether appropriate call numbers and bar codes were affixed to items.
- We physically inspected GFL's special collections,¹ secure storage area, and access-security measures. We also reviewed the climate-control system in the secure storage area to determine whether certain documents in GFL's custody are maintained in an environmentally controlled area.
- We selected non-payroll administrative and operational expenditures paid through the state's Massachusetts Management Accounting and Reporting System (MMARS) for examination to determine whether they were properly approved, recorded, and supported and were reasonable and appropriate to GFL operations. For our test of expenditures, we examined a nonstatistical sample of 25 randomly selected transactions from a population of 324 expenditures in our audit period.
- We assessed the adequacy and effectiveness of control activities for the handling of revenue during our audit period. For our test of controls over revenue, we selected a nonstatistical sample of 10 randomly selected revenue transactions from a population of 61 transactions in our audit period.
- We assessed the adequacy and effectiveness of control activities for the administration of payroll. Specifically, we interviewed GFL's officials and staff and reviewed policies and procedures in place during our audit period. For our test of payroll controls and expenditures, we selected a nonstatistical sample of 4 randomly selected employees from a population of the 10 full-time employees and 1 of the 2 part-time employees employed by GFL during our audit period. We obtained and reviewed GFL employee timesheets in the Commonwealth's Self-Service Time and Attendance system² and supporting documentation in employee files to determine whether timesheets were properly completed and approved; whether time, attendance, and leave time were recorded; and whether compensation amounts agreed with

1. Special collections are noncirculating items in GFL's possession, such as rare and historical photographs, books, newspapers, and legislative papers.

2. SSTA is an application provided by the Massachusetts Human Resources Division that allows Commonwealth employees to enter time and attendance online and manage their leave balances in real time. By early 2013, all state executive-department agencies (unless exempted) were required to use SSTA.

the employees' approved salaries and Internal Revenue Service Form W-2 wage and tax submissions.

- We reviewed GFL's inventory-control system for furnishings and equipment to determine whether it complied with OSC's requirements.
- We assessed the adequacy and effectiveness of control activities for assets donated to GFL. For our examination of assets received by GFL, we reviewed the donation list that the library provided to us, which listed the donors, descriptions of assets, and dates of donation. We reviewed the description of each asset to identify any assets that might be considered works of art or historical treasures in order to determine compliance with the recording requirements of OSC's Fixed Assets—Acquisition Policy.

Our assessment of internal controls over GFL's holdings, revenue, administrative expenditures, payroll and furnishings, donated assets, and equipment was based on interviews and documents reviewed. We assessed the internal controls related to each of the audit objectives by reviewing related policies, procedures, laws, and regulations and then interviewing GFL's officials to gain an understanding of the internal control environment, as well as the processes used. Our interviews, along with follow-up questions, led us to make requests for supporting documentation, which we used to assess internal controls.

We also analyzed revenue received by GFL and expenditure transactions recorded in MMARS, the system through which GFL payroll and operating expenditures were processed, to identify payments made by the Commonwealth to fund GFL's operations. From our current audit work and OSA's data-reliability assessment of MMARS's information-technology controls,³ we determined that the data obtained for this audit were sufficiently reliable for the purposes of this report. Whenever sampling was used, we applied a nonstatistical approach, and as a result, the results cannot be projected to the entire population but apply only to the items selected.

3. In 2014, OSA performed a data-reliability assessment of MMARS. As part of this assessment, we tested general information-technology controls for system design and effectiveness. Our audit tested for accessibility of programs and data as well as system change-management policies and procedures for applications, configurations, jobs, and infrastructure.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The George Fingold Library's internal controls over inventory and payroll were not sufficient, although they had been reported as such to the Office of the State Comptroller.

a. The George Fingold Library did not have a sufficient inventory process for fixed assets.

The George Fingold Library's (GFL's) process for administering its inventory of fixed assets was deficient. Specifically, GFL had not established written policies and procedures for the inventory of fixed assets, did not maintain a list of its fixed assets, and did not conduct an annual physical inventory of these assets. In fact, GFL had not documented the last time it took an inventory of these assets. Further, during our inspection of fixed assets, we noted that GFL had furniture and equipment that was not tagged. Without properly recording fixed assets, using a formal asset-management program to track its assets with identification tags, performing and documenting an annual physical inventory, and establishing procedures encompassing all phases of the inventory process, GFL cannot be sure that its fixed assets are properly safeguarded against loss, theft, and misuse and that inventory records are complete and accurate.

Authoritative Guidance

The Internal Control Guide of the Office of the State Comptroller (OSC)—which applies to all state agencies, including GFL, states, “It is important that an organization establish policies and procedures so that staff knows what is to be done and compliance can be properly evaluated.”

The Fixed Assets—Accounting and Management Policy and Fixed Assets—Acquisition Policy jointly issued by OSC and the state's Operational Services Division (OSD) require annual inventories. The latter policy states,

Non-[generally accepted accounting principles, or GAAP] Fixed Assets must be recorded in a Department's inventory and reconciled at least annually. This inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location and disposition of an item.

The Fixed Assets—Acquisition Policy also requires that departments have a formal asset-management program that includes a system to track their assets.

Reasons for Noncompliance

The GFL program coordinator believed that GFL did not have capital assets that would require recording, reconciliation, identification tagging, and policies and procedures.

b. GFL did not have sufficient payroll and personnel policies.

GFL did not have payroll and personnel policies other than a flex-time policy, dated July 2011, which did not include procedures for delegating approval of timesheets, approving vacation and personal time, or providing notification of absence due to illness. Moreover, even though GFL implemented the Commonwealth's Self-Service Time and Attendance (SSTA) system in 2012, the library had not established and implemented policies and procedures for SSTA. As a result of these deficiencies, there is no assurance of the accuracy of GFL's payroll transactions, which totaled \$721,000 for fiscal year 2014 and \$764,000 for fiscal year 2015.

Authoritative Guidance

The Time and Attendance Policy of the Commonwealth's Human Resources Division (HRD) states,

Each agency should also have its own written policy for time and attendance which addresses issues not included in this Executive Department policy because they are unique to each agency (for example procedure for requesting vacation and personal time, notification procedure when absent due to illness, delegation procedures for time approval, procedure for authorizing overtime, flextime, emergency staffing during inclement weather, etc.).

In addition, in SSTA rollout sessions with agency liaisons on April 3, 2012, HRD informed departments that it was "important that agencies review and update agency policies and internal controls to align with [SSTA]."

Reasons for Noncompliance

The GFL Program Coordinator indicated that he relied on the HRD Time and Attendance Policy, considered it sufficient without the need for departmental policy, and was unaware of HRD's requirement that specific departmental payroll policies and procedures be developed.

He stated that he would take corrective action by developing payroll policies and procedures that would include the implementation of SSTA.

c. GFL incorrectly reported to OSC that its controls over the above matters were sufficient.

GFL provided inaccurate information to OSC regarding its internal controls over inventory and payroll procedures. Inaccurate information prevents OSC from effectively assessing the adequacy of GFL's internal control system for the purpose of financial reporting.

On its fiscal year 2014 and 2015 Internal Control Questionnaires (ICQs), GFL inaccurately reported the following:

- that it had procedures that encompass all phases of the inventory process: acquisition, recording, tagging, assignment/custody, monitoring, replacement and disposal, as well as the assignment of the roles of responsibility to personnel
- that it had taken an annual inventory of tangible and intangible capital assets, which included additions, disposals, transfers, and assets no longer in service
- that it had updated department policies and procedures to reflect the implementation of SSTA
- that it had procedures for the authorization, notification, approval, and recording of all paid leave and compensatory time

In addition, GFL's department head, chief fiscal officer (CFO), and internal control officer told us that they had read and approved each statement presented to OSC on these matters in GFL's ICQs for fiscal years 2014 and 2015, but had not signed and filed a printed copy of the form on which the information was provided. Without properly certifying the accuracy of this information, GFL cannot provide assurance that its management has reviewed it and ensured that it is complete and accurate.

Authoritative Guidance

The ICQ is a document designed by OSC that is sent to departments each year requesting information and department representations on their internal controls over 12 areas: management oversight, accounting system controls, budget controls, revenue, procurement and contract management, invoices and payments, payroll and personnel, investments held by the Commonwealth, material and supply inventory, capital-asset inventory, federal funds, and information-technology security and personal data. According to OSC's instructions for completing the fiscal year 2014 and 2015 ICQs, the department head, CFO, and internal control officer of each

department must certify the responses provided in the Representations section of the ICQ. The purpose of the ICQ is to provide an indication of the effectiveness of the Commonwealth's internal controls. External auditors use department internal control plans and ICQ responses, along with other procedures, to render an opinion on the internal controls of the Commonwealth as a whole.

Reasons for Inaccurate Responses

GFL's program coordinator concurred that the library's responses for the above four questions on its fiscal year 2014 and fiscal year 2015 ICQs were incorrect. He stated that, when completing the two ICQs, he incorrectly assumed that GFL had inventory procedures encompassing all phases of the inventory process, had taken an annual physical inventory of those assets, and had adequate payroll policies and procedures that had been updated to include the implementation of SSTA.

He told us he would begin corrective actions by implementing procedures that would include recording, and accounting for, non-GAAP assets; tagging assets with an identification number; and conducting an annual physical inventory and reconciliation of assets. He also informed us that payroll policies and procedures would be developed that would include the implementation of SSTA.

Finally, GFL's CFO stated that the library's personnel were not aware of the Representations section of the OSC 2014 and 2015 ICQ instructions, which required certain agency officials to print, sign, and retain a copy of the final ICQ as documentation that all required parties had reviewed and approved the responses.

Recommendations

1. GFL should establish and implement a formal asset-management program and related policies and procedures that cover all phases of an inventory process, adequately track and identify individual items by practices such as tagging assets with identification numbers, ensure that fixed assets are properly and accurately recorded, require an accurate list of fixed assets, and require an annual physical inventory and reconciliation of fixed assets.
2. GFL should develop its own written policy for employee time and attendance, including procedures for requests, approval, and documentation of vacation, personal, and sick time and any other absences. The procedures should also reflect the implementation of SSTA.
3. GFL should ensure that the ICQ it submits to OSC each year is accurate. If necessary, GFL should request guidance from OSC on these matters.

4. GFL should retain a printed, approver-signed copy of its certification of its ICQ representations.

Auditee's Response

The Library will incorporate the recommendations from this report. We believe these findings will improve the daily operations of the Library and we are grateful for these suggestions.

- *The Library will institute an asset policy that will define the process for the yearly inventory process and what should be included in the list of assets. All assets will be tagged with identification numbers and a list will be compiled of the assets.*
- *The Library will develop an employee time and attendance policy which will define the procedures for vacation, personal, sick time, and any other absences.*
- *The Library will verify that the ICQ that is submitted to OSC each year is accurate.*
- *After the ICQ has been submitted it will be printed and a signed copy will be saved.*

Auditor's Reply

Based on its response, we believe that GFL is taking appropriate measures to address the concerns we identified.

2. GFL's inventory process for donated items needs improvement.

GFL has not added any of its donated items to the Massachusetts Management Accounting and Reporting System (MMARS) although some of them could be works of art or national treasures, which are required to be entered in that system. Without properly identifying and recording any donations of art and historical treasures, GFL cannot ensure that they are fully accounted for and properly safeguarded from theft.

GFL provided us with a list of 121 donated items it received after July 1, 2001, which showed the description, donor name, and donation date for each asset. None of the items on the list had been recorded in MMARS. Although we could not assess whether each individual item would be considered a work of art or historical treasure, the items included some artifacts that both the Office of the State Auditor and officials from the Office of the State Comptroller believed could fall into these categories, based on the items' descriptions.

Authoritative Guidance

The OSC and OSD Fixed Assets—Acquisition Policy requires state agencies to enter all GAAP fixed assets in MMARS. These are single assets with a useful life of more than one year and a historical cost over a

certain amount. The policy states that they include, among other things, "all land, regardless of cost"; "vehicles, equipment, furniture, computer software, and all electrical and computer components . . . with an historical cost in excess of \$49,999"; and "buildings . . . with an historical cost of greater than \$99,999." The policy also specifies that the following GAAP fixed assets must be entered in MMARS:

- ***All works of art and historical treasures, regardless of cost, acquired or donated to a department after July 1, 2001. The cost at which it is entered is either the historical acquisition cost or the appraised value at date of donation.***

Reasons for Noncompliance

GFL's program coordinator stated that he believed that GFL did not obtain any works of art or historical treasures after July 1, 2001. We noted that GFL did not have policies and procedures for determining which items should be considered works of art or historical treasures, so there are no controls in place to ensure that such items are identified and recorded.

Recommendation

GFL should develop policies and procedures for identifying all works of art and historical treasures donated to it, determining their historical acquisition costs or appraised values at the time of donation, and recording them in MMARS.

Auditee's Response

The items that have been donated to the Library since 2001 should not be defined as "works of art," or "national treasures." They are valuable to the Library only for their research potential. Many of the items on the list are the donated papers of Legislators, or items that have been donated to the library for exhibits, many of which hold no commercial re-sale value. . . .

The Library will develop a policy regarding items that are donated to the Library to ensure that if an item meets the qualifications to be classified as a "work of art" or a "national treasure," that proper procedures are followed to ensure that the required information is entered into MMARS.

Auditor's Reply

GFL has said it will develop policies and procedures for identifying all works of art and historical treasures donated to it, determining their historical acquisition costs or appraised values at the time of donation, and recording them in MMARS. GFL should seek guidance and clarification from OSC on whether any of the items in question are works of art or historical treasures for MMARS purposes.

Based on its response, we believe that GFL is taking appropriate measures to address the concerns we identified.

OTHER MATTERS

Inventory Issues (Information Technology)

On May 9, 2011, the Governor issued Executive Order 532. This order superseded Executive Order 510, which transferred the responsibility for accounting for the information-technology (IT) assets of executive departments—including the George Fingold Library (GFL)—to the Executive Office for Administration and Finance (EOAF). One of EOAF's responsibilities under both orders was to perform annual physical inventories of GFL's IT assets in accordance with the Office of Information Technology's Enterprise IT Asset and Risk Management Policy, dated March 6, 2014. This policy states,

Secretariats and their respective agencies are required to . . . annually conduct a physical audit of IT assets and reconcile the audit with the IT asset inventory. Agencies must investigate and resolve discrepancies between the physical audit of IT assets and the IT asset inventory.

As part of our current audit, we asked whether an annual physical inventory of GFL's IT assets had been conducted. GFL personnel told us that they did not recall that EOAF had conducted a physical inventory during fiscal year 2015. At the time of our audit, IT capital assets in GFL's possession consisted of 12 desktop computers, 12 monitors, four printers, and two laptops.

Although this matter was outside the scope of this audit, we discussed it with EOAF's bureau chief of Technical Services, who is responsible for the management of IT assets for departments under EOAF. He stated that because of limited resources and time constraints, physical inventories are not conducted annually; rather, EOAF conducts its physical inventory of IT assets at the end of its three-year lease. He further stated that corrective action would be taken to ensure annual physical inventories of GFL's IT assets.