

Audit Report

Maryland State Library Agency

April 2022



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

April 4, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland State Library Agency (MSLA) for the period beginning July 1, 2017 and ending November 7, 2021. MSLA is responsible for overseeing the Maryland State Library for the Blind and Print Disabled (LBDP), Maryland public libraries, the State Library Network, local library capital grants programs, and the Deaf Culture Digital Library. MSLA also administers State and federal programs to improve library services, operates the LBDP, coordinates the online electronic information network that provides free internet access to Maryland residents, and oversees the State Library Network where residents can obtain materials and services not available at their local libraries.

Our audit disclosed that MSLA did not have a formal written agreement to establish roles and responsibilities with a tax exempt charitable organization since certain factors present the perception that the organization is affiliated with LBDP, which is operated by MSLA. For example, the organization uses the name of LBDP to raise funds, and publicly asserts it will use these funds primarily to support LBDP.

MSLA's response to this audit is included as an appendix to this report. We reviewed the response to our finding and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by MSLA and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Creation and Responsibilities

Effective July 1, 2017, Chapters 337 and 338, Laws of Maryland 2017 established the Maryland State Library Agency (MSLA) as an independent unit of State government under the direction of a 12-member governing board (Maryland State Library Board). Prior to this law, MSLA existed under the direction of the Maryland State Department of Education (MSDE) and MSLA's activities were subject to audit during our Office's audit of MSDE. MSDE continued to provide support services for certain fiscal activities, such as recordation of expenditures in the State's Financial Management Information System until fiscal year 2019, when MSLA fully assumed its fiscal activities.

MSLA is responsible for overseeing the Maryland State Library for the Blind and Print Disabled (LBDP), Maryland public libraries, the State Library Network, local library capital grants programs, and the Deaf Culture Digital Library. MSLA administers State and federal programs to improve library services, operates the LBDP, approves plans for the State Library and the Regional Resource Centers, coordinates the online electronic information network that provides free internet access to Maryland residents, and oversees the State Library Network where residents can obtain materials and services not available at their local libraries.

According to the State's records, during fiscal year 2021, MSLA's operating expenditures totaled approximately \$90.8 million. These expenditures were funded by State general funds totaling approximately \$87.0 million and federal funds totaling approximately \$3.8 million.

In addition, MSLA authorized disbursement of funds under the public library capital grant program. According to the Department of Budget and Management's fiscal year 2022 Capital Budget *White Book*, MSLA had authorized capital improvement projects with budgeted funds totaling approximately \$24.8 million during the period from July 2018 to June 2021 related to the public library capital grant program. These funds were to provide grants for acquiring land, design, construct, and equip public library facilities. MSLA also authorized capital improvement projects with budgeted funds totaling approximately \$4.8 million during fiscal year 2018 to complete renovations and equip the Central Branch of Baltimore City's Enoch Pratt Free Library System. According to the State's records, during fiscal year 2021, capital expenditures totaled approximately \$5.7 million.

Findings and Recommendations

Friends of Maryland Library for the Blind and Print Disabled

Finding 1

The Maryland State Library Agency (MSLA) did not have an agreement with the Friends of the Maryland Library for the Blind and Print Disabled to address each entity's role and responsibilities.

Analysis

MSLA did not have a memorandum of agreement (MOA) with the Friends of the Maryland Library for the Blind and Print Disabled (Friends) to address each entity's role and responsibilities. Friends is a tax exempt charitable organization under Section 501(c) of the Internal Revenue Service (IRS) Code that was created in 1988 and according to filings with the IRS and its website, its purpose is to support Maryland State Library for the Blind and Print Disabled (LBPD) and promote public awareness. In addition, the president of Friends is also a member of the governing board of MSLA. According to filings with the IRS, as of December 31, 2020 the Friends' assets (cash and investments) totaled \$1,064,619, and during calendar year 2020 the Friends provided cash and equipment totaling \$12,363 to MSLA.

There is no formal legal connection between the Friends and MSLA despite its use of "Library for the Blind and Print Disabled" in its name, its public assertions that it will fund LBPD with donated funds, and its president's position on the MSLA Board. Under the circumstances, an MOA is warranted as these factors present at least the perception that Friends is affiliated with LBPD and the MSLA. The MOA should specify the roles and responsibilities of each entity, including the following:

- the Friends' solicitation, collection, administration and investment of funds;
- the Friends' procurement policies for purchases donated to MSLA;
- the Friends' submission of an annual audited report to MSLA;
- the Friends' conflict of interest policy for board members and employees;
- MSLA sharing of priorities, projects and resource requirements, including the sharing of any non-private data to assist the Friends' effort; and
- MSLA providing of any in-kind support functions and the use of its facilities.

As of January 2022, Friends had 14 board members who were collectively responsible for managing the Friends' business and fiscal affairs, and approving expenditures to support its mission.

Recommendation 1

We recommend that the MSLA enter into an MOA with Friends to, at a minimum, detail the roles and responsibilities for each entity in critical areas such as solicitation, investment, and procurement policies.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland State Library Agency (MSLA) for the period beginning July 1, 2017 and ending November 7, 2021. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MSLA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included operating and capital grant programs, and oversight of the Maryland State Library for the Blind and Print Disabled.

Our audit did not include certain support services provided to MSLA by the Maryland State Department of Education (MSDE), during fiscal year 2018, such as recordation of expenditures in the State's Financial Management Information System (FMIS). These support services are included within the scope of our audit of MSDE.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 1, 2017 to November 7, 2021, but may include transactions after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of MSLA's operations. Generally,

transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from FMIS (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MSLA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to MSLA, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes a finding relating to a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect MSLA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit did not disclose any significant instances of noncompliance with laws, rules, or regulations.

MSLA's to our finding and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MSLA regarding the results of our review of its response.

APPENDIX



Irene M. Padilla
Maryland State Librarian

25 S. Charles Street, Suite 1310 • Baltimore, Maryland 21201 • 667-219-4800

March 31, 2022

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Hook:

We are providing this letter in connection with your fiscal compliance audit of the Maryland State Library Agency (MSLA) for the period beginning July 1, 2017 and ending November 7, 2021 for the purpose of examining the MSLA's financial transactions, records and internal controls, and evaluating its compliance with applicable State laws, rules and regulations.

MSLA is in agreement with the finding regarding the need for an agreement with the Friends of Maryland Library for the Blind and Print Disabled to address each entities roles and responsibilities. Please see the attached Agency Response Form with details of the corrective action MSLA will take and a specific implementation date for the recommendation.

Please let me know if you have any questions or require any further information.

Sincerely,

Irene M. Padilla

Irene M. Padilla

c: Sharan D. Marshall, Chair, Maryland State Library Board
Donna Liberto, Chief Financial Officer, MSLA

Maryland State Library Agency

Agency Response Form

Friends of the Maryland Library for the Blind and Print Disabled

Finding 1

The Maryland State Library Agency (MSLA) did not have an agreement with the Friends of the Maryland Library for the Blind and Print Disabled to address each entity's role and responsibilities.

We recommend that the MSLA enter into an MOA with the Friends of the Maryland Library for the Blind and Print Disabled to, at a minimum, detail the roles and responsibilities for each entity in critical areas such as solicitation, investment, and procurement policies.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	October 1, 2022
Please provide details of corrective action or explain disagreement.	<p>MSLA agrees with the Finding and Recommendation to enter into an MOA with Friends to, at a minimum, detail the roles and responsibilities for each entity in critical areas such as solicitation, investment, and procurement policies.</p> <p>To ensure that the roles and responsibilities for MSLA and the Friends of the Library for the Blind and Print Disabled in critical areas such as solicitation, investment, and procurement policies, MSLA will develop an MOA specifying the roles and responsibilities of each entity, including the following:</p> <ul style="list-style-type: none">• the Friends' solicitation, collection, administration and investment of funds,• the Friends' procurement policies for purchases donated to MSLA,• the Friends' submission of an annual audited report to MSLA,• the Friends' conflict of interest policy for board members and employees,• MSLA sharing of priorities, projects and resource requirements, including the sharing of any non-private data to assist the Friends' effort; and		

Maryland State Library Agency

Agency Response Form

	<ul style="list-style-type: none">• MSLA providing of any in-kind support functions and the use of its facilities. <p>This MOA will be developed by October 1, 2022.</p>
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AUDIT TEAM

Mark S. Hagenbuch, CPA
Audit Manager

Joshua A. Naylor
Senior Auditor