



CITY OF VANCOUVER INTERNAL AUDIT REPORT VPL Materials Acquisitions Audit

Distribution:

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EXECUTIVE SUMMARY

January 5, 2022

The Audit assessed the efficiency of business processes and compliance with applicable policies and procedures relating to the Vancouver Public Library (VPL) materials acquisitions process.

Internal controls around the business processes are generally adequate and it has been evident that management has made numerous control improvements in recent years. However, further improvements can be made to processes related to contract management and retention, formalizing approval policies and procedures for the acquisitions process and requiring a conflict of interest declaration and sign-off.

The more significant findings and recommendations are:

E.1 Create a centralized and electronic repository for contracts

All active VPL contracts should be retained and stored electronically to ensure a copy of all legally binding terms and agreements is available at all times for reference.

E.2 Update the Acquisitions Policy and communicate it to staff

The current Acquisitions Policy needs to be updated and incorporate all existing policies related to acquisitions. Related approval procedures also need to be established and officially documented. This is important to ensure a consistent approach amongst the Selections and Acquisitions teams.

E.3 Require conflict of interest declaration and sign-off

All Selections and Acquisitions staff from the Technical Services team, Digital Collections staff from the Digital Services team, and relevant VPL management should review the Code of Conduct Policy and formally sign off on a Conflict of Interest declaration.

Handwritten signature of Carmen Fuellbrandt in black ink.

Carmen Fuellbrandt, CPA, CMA, CIA, CRMA
Manager, Internal Audit

Handwritten signature of Carolyn Lok in black ink.

Carolyn Lok, CPA, CA, CIA
Senior Internal Auditor

A. BACKGROUND

Vancouver Public Library's (VPL) Collections department is responsible for the selection and purchase of materials and resources for Vancouver residents. In 2020, VPL had nearly 6.5¹ million visits, with patrons borrowing nearly 9.5 million¹ physical and digital items including books, movies, music and magazines. \$5.2M² was spent on such materials to help build an informed community, offer learning resources and provide entertainment.

Acquisitions of material for the library is a complex process and involves two main departments with specific responsibilities and expertise:

Technical Services

The Technical Services department is responsible for selecting, purchasing materials and ensuring the collection is available and searchable to VPL patrons. Groups involved include:

- **Selections Team** – Selects physical and electronic materials for purchase;
- **Acquisitions Team** – Processes purchases and receives materials;
- **Bibliographic Services Team** – Catalogues and creates bibliographical records of material;
- **Catalogue Support Team** – Supports Bibliographic Services librarians with creating bibliographic records; and
- **Preparations Team** – Prepares materials to be physically circulated within the library system.

Digital Services

The Digital Services department is responsible for identifying, selecting, negotiating contract terms and purchasing access to digital databases and online platforms for electronic books, audio, learning materials, streaming music and video, as well as digital magazines and newspapers.

See Appendix A for the Acquisitions Process flowchart.

B. SCOPE

The audit objective was to review the process of acquiring materials to ensure internal controls and business processes were adequate, effective and efficient. The scope of our audit included:

- Review of the current policies and procedures and assessing for compliance;
- Meeting with all departments involved in the acquisitions process and performing a physical walk-through of the receiving and processing procedures to understand the material flow and to assess internal controls and efficiency;
- Review of a sample of currently active Digital Services contracts and assessing the management and retention process; and

¹ Obtained from <https://www.vpl.ca/about>

² Obtained from 2020 VPL Annual Report

- Inquiry of current controls in place to ensure compliance with the Canadian Copyright Act on Book Importation.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

C. CONCLUSION

Internal controls around the business processes for VPL material acquisitions are generally adequate. However, improvements can be made to processes related to contract management and retention, formalizing approval policies and procedures in the acquisitions process and requiring staff sign-off on a Conflict of Interest declaration.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

D. RISK ANALYSIS

The potential significant risks considered if controls were not in place are:

- Financial or legal liability in the absence of signed contractual commitments as it would be unclear what terms and conditions VPL are legally bound to;
- Fraudulent opportunities without clear and documented purchasing policies and procedures with regards to approvals, vendor assignment and conflict of interest; and
- Non-compliance to and violation of the Canadian Copyright Act on Book Importation.

E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

E.1 Create a centralized and electronic repository for contracts

Digital Services is responsible for identifying databases and platforms that suit the needs of VPL, negotiating contract terms with vendors, finalizing contracts and managing contracts to ensure the stipulated terms and conditions are followed.

There is no central repository to store contracts which affects VPL's ability to reference to the terms and conditions VPL is legally required to abide by. Currently, contracts are either stored digitally on Vandocs, embedded in staff's emails, or in the physical filing cabinet at the VPL Digital Services office. There is no policy that addresses the retention of contracts.

A random selection of 20 contracts was requested from Digital Services:

- *15 signed contracts were provided;*
- *2 unsigned contracts were provided* – there is a risk to referring to terms and conditions on unsigned contracts as it could be an earlier draft that excludes changes made during negotiation;
- *3 contracts could not be located* – the legal terms that VPL is bound to in the event of a dispute or legal issue would be unknown.

Digital Services management has already recognized this issue and has a proactive plan to address it. A project to compile and digitize all contracts has started and is estimated to be completed in Q3 of 2022.

Recommendations:

E.1.1 The Director of Collections & Technology should ensure the Acquisitions Policy is updated to include contract retention. This includes the requirement to digitize and retain all contracts in a central location. A set of procedures for Digital Services staff to follow should also be developed. This should be completed by September 30, 2022.

E.1.2 The Director of Collections & Technology should ensure all active Digital Services contracts are located, digitized and retained in a central location. This should be completed by September 30, 2022.

Management Response:

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

Management Action Plan:

This work had begun prior to the audit, and will continue until completion.

E.2 Update the Acquisitions Policy and communicate it to staff

The current Acquisitions Policy requires updating; certain procedures are not being followed and some policies are unclear and inconsistently applied by staff.

Impractical procedures and inconsistent approaches to policies

The Purchase Order section in the Guidelines in the Acquisitions Policy requires any price changes upon receipt of material that is greater than \$100 per title (compared to the purchase order) to obtain approval from a Selections Librarian. These changes should also be reviewed by the Supervisor of Acquisitions every six months.

This policy requires revision for two reasons. Firstly, various Acquisitions staff use different approval thresholds. Aside from the \$100 threshold, some staff use thresholds of \$25, or 30% or 40% of the title's price difference. Secondly, changes to these prices cannot be tracked by the Horizon system (VPL's Integrated Library System software). This means price changes are undocumented unless staff creates a manual note in the system. Also, when approvals are obtained, they are verbal or sent via email. It is not possible for the Supervisor of Acquisitions to review a complete list of price changes on Purchase Orders in Horizon and spot check to the approvals.

It is important to ensure all policies and procedures in the Acquisitions Policy are practical and reflective of current practices. There should also be consistent approaches to approval policies for the Acquisitions team.

Refine approval policy for the Selections Team

Once the Selections team decides on material that should be ordered, they request a purchase order which is processed by the Acquisitions team. The current policy is for Selections staff to obtain approvals from the Unit Head of Selections if the title exceeds \$500. This approval can be verbal or via email. However, this policy is not officially documented and when meeting with two Selections staff, neither were aware of this threshold. One believed the approval threshold was for title orders of greater than 80 copies and the other was unaware of any threshold.

Acquisitions staff create and process the purchase order requests on the assumption that all required approvals were obtained. This creates a risk of processing orders without the required approvals. It is important to establish the approval policy for purchase order requests by the Selections team and communicate it to staff. Approvals should also be documented rather than verbal. This control can be further improved if the Selector's purchase order approvals are also forwarded to Acquisitions staff before it gets processed.

Finalize New Vendor Policy

Previously, the Supervisor of Acquisitions would complete a New Vendor form for the Head of Acquisitions to sign and approve and it would be filed in a cabinet. Since staff were required to work from home in 2020 due to COVID-19, the approval process became a spreadsheet that tracked details of the new vendor, and the Head of Acquisitions would add her name as her approval. There are improvement opportunities as it is difficult to verify who typed the approval name in the spreadsheet.

With staff having transitioned back to the office in 2021, it is important to re-establish and implement a stronger process for new vendor approvals.

Create Vendor Selection Guideline

There is no policy around selecting vendors for material purchases offered by multiple vendors. Based on discussions with four Acquisitions staff, their vendor selection approach varies. Some indicated it's an arbitrary process whereas some try to distribute the purchases evenly amongst the largest Canadian vendors. Others base it on personal preference of the vendor website's user interface.

It is important to establish a guideline around vendor selection and ensure a fair, consistent approach that avoids any perceived favouritism towards a vendor.

Recommendations:

E.2.1 The Director of Collections & Technology should review the Acquisitions Policy and ensure:

- **All procedures in the Policy are practical, updated and include any mandated policies that are missing;**
- **A Selections Team approval threshold is established and communicated to staff with regards to purchase requests. These approvals should also be documented and purchase order approvals beyond a certain amount should be forwarded to Acquisitions before processing; and**
- **The process for approving new vendors is finalized.**

This updated policy should then be communicated to the Acquisitions team and made accessible to staff. This should be completed by September 30, 2022.

E.2.2 The Director of Collections & Technology should oversee the creation of a Vendor Selection Guideline for staff on vendor selection when materials are offered by multiple vendors. Once established, this should be communicated to staff. This should be completed by September 30, 2022.

Management Response:

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

Management Action Plan:

The Acquisitions Policy will be updated to ensure there are clear accessible policies on: vendor selection guidelines, new vendor approval and price thresholds.

E.3 Require conflict of interest declaration and sign-off

VPL has a Code of Conduct Policy (Policy Code VPL-BD-HR-003-2016) that contains a component addressing conflict of interest to ensure staff's personal interests, affiliations or relationships do not affect their duties. This Policy is available to staff on VPL's intranet. However, based on a survey of eight staff, seven staff indicated they have not read the policy, and five of them were unaware of the policy.

A policy that addresses conflict of interest is especially important for management and staff who are involved in procurement activities because they should be aware of what constitutes a conflict of interest and what situations need to be reported to management. In the absence of both a conflict of interest sign-off and a policy for vendor selection (as discussed in E.2), there is a risk of perceived favoritism as well as a risk of vendor selection by staff with a conflicting interest in the vendor.

All Selections and Acquisitions staff from the Technical Services team, Digital Collections staff from the Digital Services team, and relevant VPL management should review the Code of Conduct Policy and formally sign off on a Conflict of Interest declaration. It is also important to ensure future staff are aware of this policy by including this as an onboarding requirement for relevant positions.

Recommendations:

E.3.1 The Director of Collections & Technology should work with VPL's Director of Human Resources to ensure all Selections and Acquisitions staff from the Technical Services team, Digital Collections staff from the Digital Services team, and relevant VPL management have reviewed and signed-off on the Conflict of Interest section of the Code of Conduct Policy. Signed copies should also be retained. This should be completed by September 30, 2022.

E.3.2 The Director of Collections & Technology should also work with VPL's Director of Human Resources to ensure the requirement to review the Code of Conduct Policy (including the Conflict of Interest requirement) is added to the onboarding checklist for all new VPL staff. This should be completed by September 30, 2022.

Management Response:

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

Management Action Plan:

This work will be done with Human Resources because they are the department who own the policy.

E.4 Clarify procedures for foreign purchases to ensure compliance with legislation

Canada's Copyright Act Regulation on Book Importation law establishes the terms of trade for businesses for imported books in Canada. It requires VPL to procure physical books published in Canada before purchasing from foreign sources.

As this is a federal legislation, the Acquisitions team takes certain steps to ensure VPL is complying with the law. If a book is not offered by Canadian vendors, the Acquisitions team inquires with their Canadian vendors to determine if they are able to source it for VPL. If unavailable, then the Supervisor of Acquisitions will review the Global Books and Prints database to confirm whether the book is published in Canada. VPL will only purchase from foreign vendors if it is not.

It would strengthen VPL's controls to document formal procedures that are required for foreign purchases and document steps taken in the event that VPL is challenged on compliance to the law. For example, VPL can create a tracker to log the date and steps taken before purchasing from a foreign vendor. These procedures should also be documented in the Acquisitions Policy for completeness.

Recommendation:

E.4.1 The Director of Collections and Technology should ensure the Acquisitions Policy is updated to include steps the Supervisor of Acquisitions is required to take before purchasing from foreign vendors. The formalized procedures should be communicated to Acquisitions staff. The Director should also explore the possibility of documenting work performed before purchasing from vendors outside of Canada to comply with the Copyright Act Regulation on Book Importation law. This should be completed by September 30, 2022.

Management Response:

☒ Agree with the findings

☒ Agree with the recommendations

☐ Disagree with the findings

☐ Disagree with the recommendations

Management Action Plan:

Logging individual purchases will be unduly onerous for staff workload; however the written procedures will be clarified and reviewed with all Acquisitions staff.

OTHER OBSERVATIONS

Management's commitment to ongoing control and efficiency improvement in recent years has been evident. For example, the Coordinator of the Preparations team identified previous training inconsistencies amongst the team with regards to physical preparation of materials. Management was proactive in rectifying this by implementing weekly team meetings to review the Preparations manual together and streamline the process.

APPENDIX A

General Acquisitions Workflow of VPL Material:		
Step	Department / Staff Responsible	Procedure
1	Selections	Select library materials to purchase
2	Acquisitions	Order materials
3	Preparations	Unpack physical materials upon receipt
4	Selections	Check materials
5	Acquisitions	Receive materials in Horizon and pay invoices*
6	Collections & Technical Services Coordinator	Review materials for physical bindery treatments required
7	Preparations	Apply branch labels and barcodes on materials
8	Catalogue Support	Search online resources for possible catalogue records for Bibliographic Services to use
9	Bibliographic Services	Create catalogue entries for each title
10	Catalogue Support	Update cataloguing details in Horizon and print spine labels*
11	Preparations	Prepare material to sustain physical circulation and check materials into collection

* VPL uses an Integrated Library System software called Horizon