

Audit Report

State Archives

June 2024



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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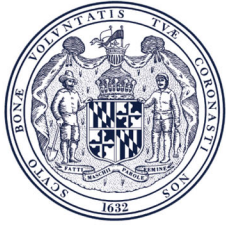
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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

June 27, 2024

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 State Archives for the period beginning January 21, 2020 and ending October 31, 2023. The State Archives is the central depository for Maryland permanent government records and for certain designated private records, and is responsible for preserving and maintaining certain artwork and historical documents of cultural significance.

Our audit disclosed that the State Archives did not have adequate accountability and controls over its equipment inventory. Specifically, the State Archives could not provide documentation that physical inventories were conducted annually for sensitive items and every three years for non-sensitive items during our audit period. In addition, we identified 127 sensitive inventory items, valued at approximately \$463,200, which had not been recorded in the equipment records.

The State Archives' 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 the State Archives. We also wish to acknowledge the State Archives' 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 Responsibilities

The State Archives is an independent unit of State government within the Executive Branch. The State Archives' central mission is to identify, appraise, acquire, describe, preserve, and make electronically available the permanent records of the past. The State Archives serves as the central depository for Maryland permanent government records and certain designated private records of permanent value, and is responsible for preserving and maintaining a collection of artwork and historical documents of cultural significance. The State Archives maintains a digital copy of all land records and updates the *Maryland Manual Online* website. According to the State's records, total State Archives expenditures were approximately \$9.6 million during fiscal year 2023 (see Figure 1).

Figure 1
State Archives Positions, Expenditures, and
Funding Sources

Full-Time Equivalent Positions as of June 30, 2023		
	Positions	Percent
Filled	59	95.2%
Vacant	3	4.8%
Total	62	
Fiscal Year 2023 Expenditures		
	Expenditures	Percent
Salaries, Wages and Fringe Benefits	\$6,353,646	65.9%
Technical and Special Fees	493,086	5.1%
Operating Expenses	2,790,019	29.0%
Total	\$9,636,751	
Fiscal Year 2023 Funding Sources		
	Funding	Percent
General Fund	\$7,441,642	77.2%
Special Fund	2,134,645	22.2%
Federal Fund	57,466	0.6%
Reimbursable Fund	2,998	0.0%
Total Expenditure	\$9,636,751	

Source: State financial and personnel records

Findings and Recommendations

Equipment

Finding 1

The State Archives did not conduct periodic physical inventories and maintain complete detail records of equipment in accordance with State policy.

Analysis

The State Archives did not have adequate accountability and controls over its equipment inventory. The State Archives maintained its equipment inventory in the Fixed Asset System (FAS) of the State's Financial Management Information System. According to FAS, as of October 2023, the equipment balance totaled approximately \$6.5 million including 900 sensitive equipment items, such as computers, with a recorded cost of approximately \$5.9 million, and 132 non-sensitive equipment items with a recorded cost of \$560,000.

- The State Archives did not conduct physical inventories timely. The State Archives reported to the Department of General Services (DGS) in September 2023 that its most recent physical inventories of sensitive and non-sensitive equipment had not been since June 2021 and June 2017, respectively. However, the State Archives lacked documentation, such as count sheets, that those physicals inventories were performed or that results were reconciled to the detail records.
- The State Archives did not maintain complete inventory records. Our comparison of inventory items recorded in FAS to a separate inventory listing maintained for one unit in the State Archives identified 127 sensitive inventory items¹, valued at approximately \$436,200, that were not recorded in FAS. In addition, we judgmentally selected 18 purchases of equipment between August 2022 and October 2023 totaling \$322,500 for testing which disclosed 5 equipment items totaling \$176,000², that were not recorded in FAS.
- The State Archives did not maintain a proper equipment control account. Specifically, although a spreadsheet of equipment purchases and disposals was maintained, this spreadsheet did not include beginning or ending total

¹ This included 9 items, totaling approximately \$147,300, which were subsequently disposed but had never been recorded in FAS prior to their disposal.

² These 5 equipment items were different than the 127 equipment items identified in our analysis.

equipment balances. As a result, the spreadsheet could not be reconciled to the detail records to ensure that all equipment purchases and disposals were properly reflected in the detail records.

The DGS *Inventory Control Manual* requires the inventory records to include all capital equipment purchases and that physical inventories be conducted annually for sensitive items and every three years for non-sensitive items. Furthermore, the *Manual* requires an independent control account be maintained on a current basis and it should be periodically reconciled with the detail records.

Recommendation 1

We recommend that the State Archives comply with the *Manual* and

- a. conduct independent physical inventories of sensitive and non-sensitive equipment inventory, as required;**
- b. ensure the inventory detail records are complete; and**
- c. establish an equipment control account and periodically reconcile the control account to the detail records.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the State Archives for the period beginning January 21, 2020 and ending October 31, 2023. 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 the State Archives' 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 cash receipts, purchasing and disbursements, payroll, equipment (including artistic property), the State Archives Fund, and the Archives Endowment Fund.

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 January 21, 2020 to October 31, 2023, but may include transactions before or 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 the State Archives' 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 of 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 the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). 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.

We also extracted data from the inventory system for the purpose of testing equipment inventory. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

The State Archives' 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 the State Archives, 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 conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the State Archives' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This finding is also considered a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the State Archives that did not warrant inclusion in this report.

The State Archives' response 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 the State Archives regarding the results of our review of its response.

APPENDIX

Hon. Wes Moore
Governor
Hon. Aruna K. Miller
Lt. Governor
Elaine Rice Bachmann
State Archivist and
Commissioner of Land Patents
Mark Letzer
Chairman, Maryland Commission
on Artistic Property

June 24, 2024



Hall of Records Commission:
Hon. Matthew J. Fader, Chair
Katie Caljean
Atif Chaundry, J.D.
Ronald Daniels, L.L.M., J.D.
Nora Demleitner, L.L.M., J.D.
Hon. Dereck E. Davis
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Jay A. Perman, M.D.
Hon. Samuel I. Rosenberg
David Wilson, Ed.D.

Gregory A. Hook, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Dear Mr. Hook,

In response to your letter of June 11, this letter acknowledges the receipt of the draft audit report for the State Archives for the period beginning January 21, 2020 and ending October 31, 2023.

Included with this letter is the completed "Agency Response Form" for the finding identified in the State Archives draft audit report files received on June 11, 2024.

It was a pleasure to work with the Office of Legislative Audits staff, led by Mr. John Wachter, Senior Auditor. We appreciate the amount of time Mr. Wachter and his staff spent at our agency meeting with the leadership of multiple departments and we concur with the finding regarding equipment inventory processes.

Please let me know if any further acknowledgement of the draft report or additional response is required.

Thank you.

Sincerely yours,

Elaine Rice Bachmann, State Archivist
And Commissioner of Land Patents

Cc Teresa Fawley, Director of Administration

State Archives

Agency Response Form

Equipment

Finding 1

The State Archives did not conduct periodic physical inventories and maintain complete detail records of equipment in accordance with State policy.

We recommend that the State Archives comply with the *Manual* and

- a. conduct independent physical inventories of sensitive and non-sensitive equipment inventory, as required;
- b. ensure the inventory detail records are complete; and
- c. establish an equipment control account and periodically reconcile the control account to the detail records.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	Non-sensitive equipment inventory will be completed by the Fiscal Accounts Officer no later than 6/30/24. Sensitive inventory will be completed by IT property officer no later than 6/30/24. Both inventories will be reconciled with the FAS inventory. Property Officer will prepare Lost/Stolen Property Declaration to report any missing items. A fully reconciled inventory will be uploaded in a new inventory system (yet to be chosen).		
Recommendation 1b	Agree	Estimated Completion Date:	7/15/2024
Please provide details of corrective action or explain disagreement.	In consultation with ISSSD, State Archives will complete a full reconciliation of the inventory no later than 7/15/24. State Archives will improve its processes to identify inventoried/capitalized equipment starting in the procurement life cycle. State Archives will report any Lost/Stolen Property in accordance with state guidelines.		
Recommendation 1c	Agree	Estimated Completion Date:	12/31/2024
Please provide details of corrective action or explain disagreement.	Deputy Director will establish and maintain a control account in accordance with ISSSD guidelines. State Archives will reconcile the		

State Archives

Agency Response Form

	control account to the detail records quarterly. Corrective actions will be taken as necessary.
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AUDIT TEAM

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Audit Manager

John B. Wachter, CFE
Senior Auditor

Kevin M. Billard
Staff Auditor