

Audit Report

State Archives

April 2016



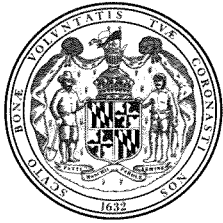
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

April 12, 2016

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the State Archives for the period beginning October 23, 2012 and ending November 8, 2015. 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and for certain designated private records and is responsible for preserving and maintaining certain artwork and historical documents of cultural significance.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 a control deficiency with respect to the State Archives' artistic property as two individuals responsible for recording transactions in the detailed property records also had access to the related property.

The State Archives' response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by the State Archives.

Respectfully submitted,

Thomas J. Barnickel III, 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private records of permanent value, and is responsible for preserving and maintaining a collection of artwork and historical documents of cultural significance.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. The State Archives also performs a number of computer-related services for other State agencies, such as helping to design and update websites. According to the State's records, total State Archives expenditures were approximately \$12.5 million during fiscal year 2015.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of one of the two findings contained in our preceding audit report dated April 16, 2013. We followed up on this finding based on our current assessment of significance and risk relative to the audit objectives. We determined that the State Archives satisfactorily addressed this finding.

Findings and Recommendations

Equipment – Artistic Property

Finding 1

The State Archives did not separate the duties of custody and record keeping for its artistic property.

Analysis

The State Archives had not established adequate internal control over the State's artistic property. The State's artistic property includes thousands of paintings, sculptures, manuscripts, decorative arts and furnishings that are in storage at Archives, located in various State buildings, or on loan to several institutions, such as the Baltimore Museum of Art and the Walters Art Gallery. The two employees responsible for recording transactions for artistic property in the

related detail records also had physical access to the artistic property in storage at Archives. As a result, items could be misappropriated without detection. Although we did not determine the extent of the property in storage at Archives, according to the Archives' detail property records as of January 14, 2016, the State owned 3,330 art collections with an insured value totaling approximately \$31.4 million.

The Department of General Services' *Inventory Control Manual* requires that the duties of inventory record keeping and inventory custody be segregated whenever practical or economically feasible.

Recommendation 1

We recommend that the State Archives ensure that employees responsible for recording artistic property transactions in the detail records not have access to the property. We advised the State Archives on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the State Archives for the period beginning October 23, 2012 and ending November 8, 2015. 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. We also determined the status of one of the two findings contained in our preceding audit report.

To accomplish our objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the State Archives' operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests 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), 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 various 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 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.

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 the State Archives' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and

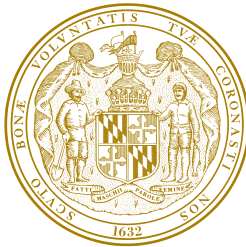
regulations. This finding is also regarded as a significant instance of noncompliance with applicable laws, rules, or regulations.

The State Archives' response to our finding and recommendation 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.

MARYLAND STATE ARCHIVES

APPENDIX

Hon. Larry Hogan
Governor
Hon. Boyd K. Rutherford
Lt. Governor
Timothy D. Baker
State Archivist
Matthew P. Lalumia
*Chairman, Maryland Commission on
Artistic Property*



Hall of Records Commission:
Hon. Mary Ellen Barbera, *Chair*
Chief Judge, Court of Appeals
C. Gail Bassette
Robert L. Caret, Ph.D.
Ronald Daniels
Hon. Peter V. R. Franchot
Hon. Nancy K. Kopp
Mark B. Letzer
Hon. Thomas V. Mike Miller, Jr.
Christopher B. Nelson
Del. Samuel I. Rosenberg
David Wilson, Ed.D.

April 8, 2016

Mr. Thomas J. Barnickel, III CPA
Legislative Auditor
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore MD 21201

Dear Mr. Barnickel:

Thank you for your letter of April 6, 2016 regarding the draft audit report for the Maryland State Archives covering the period October 23, 2012 through November 8, 2015. Attached is the agency response.

I would like to acknowledge the exceptional professionalism of your staff, and I appreciate their good work.

Sincerely,

A handwritten signature in blue ink that reads "Timothy D. Baker".

Timothy D. Baker
State Archivist and
Commissioner of Land Patents

Findings and Recommendations

Equipment – Artistic Property

Finding 1

The State Archives did not separate the duties of custody and record keeping for its artistic property.

Analysis

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The Department of General Services' *Inventory Control Manual* requires that the duties of inventory record keeping and inventory custody be segregated whenever practical or economically feasible.

Recommendation 1

We recommend that the State Archives ensure that employees responsible for recording artistic property transactions in the detail records not have access to the property. We advised the State Archives on accomplishing the necessary separation of duties using existing personnel.

Agency Response:

The State Archives concurs with the recommendation.

Staff of the Commission on Artistic Property no longer have add, delete or edit privileges to the inventory databases. They have retained "read-only" privileges. Responsibility for recording artistic property transactions, (modifying the data in the inventory databases), has been transferred to a position within the Administration Department. The person who has assumed this responsibility does not have access to the artistic property and is not involved with the annual physical inventory.

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