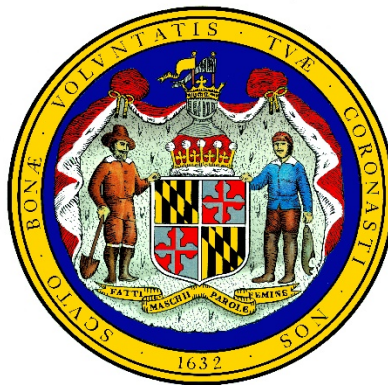


Audit Report

Historic St. Mary's City Commission

April 2025



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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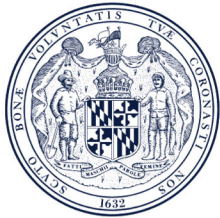
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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

April 18, 2025

Senator Shelly L. Hettleman, 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 Historic St. Mary's City Commission for the period July 1, 2020 and ending August 16, 2024. The Commission is responsible for preserving and protecting archaeological and historic records of Maryland's first colonial capital and for appropriately developing and using this historic and scenic site for the education, enjoyment, and general benefit of the public.

Our audit disclosed that the Commission's agreement with its affiliated foundation was not comprehensive, as it did not address policies and procedures for key areas such as purchases, ethics, and investments.

The Commission'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 the Commission.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Background Information

Agency Responsibilities and Financial Information

The Historic St. Mary's City Commission, an independent unit of state government, is responsible for preserving and protecting archaeological and historical records of Maryland's first colonial capital and for appropriately developing and using this historic and scenic site for the education, enjoyment, and general benefit of the public. The Commission operates an outdoor museum and archeological park.¹ The Commission is governed by a board that consists of eighteen members with 14 members appointed by the Governor with the advice and consent of the Senate. For the remaining four members, the President of the Senate and Speaker of the House each appoint one member, and there are also two ex officio members.²

The Commission also maintains the Historic St. Mary's City Fund which consists of general fund appropriations, any fees collected, and any additional money received or paid to the Commission. The Fund is used to pay all expenses by the Commission as appropriated by the General Assembly. As of June 30, 2024, the Fund's balance was \$81,388.

According to State records, during fiscal year 2024, the Commission's expenditures totaled \$6.9 million (see Figure 1). The majority of the Commission's expenditures represent payroll costs for its full-time employees and technical and special fees for seasonal and contractual employees.

¹ The Commission had also operated a bed and breakfast but it is currently not operational. The Commission is planning to use it as staff offices and for special events (such as weddings).

² Effective June 1, 2023, Chapter 129, Laws of Maryland 2023, increased the membership for the Commission from seventeen members to eighteen members.

Figure 1
Commission Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2024		
	Positions	Percent
Filled	29	90.6%
Vacant	3	9.4%
Total	32	
Fiscal Year 2024 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$3,159,158	45.8%
Technical and Special Fees	1,610,299	23.3%
Operating Expenses	2,131,026	30.9%
Total	\$6,900,483	
Fiscal Year 2024 Funding Sources		
	Funding	Percent
General Fund	\$6,382,132	92.5%
Special Fund	472,390	6.8%
Federal Fund	45,961	0.7%
Total	\$6,900,483	

Source: State financial records and Commission personnel records

According to the Department of Budget & Management’s fiscal year 2025 Capital Budget *White Book*, the Commission had authorized capital improvement projects with budgeted funds totaling approximately \$25.8 million during the period from July 2020 to June 2024. The largest authorized capital budget totaled \$12 million in fiscal year 2022 for the design and construction of the *Maryland Heritage Interpretive Center*, which will feature exhibits, an auditorium, and galleries. Construction of the *Center* began in 2022 and was originally expected to be completed by the end of calendar year 2024, but is now scheduled to be completed later in calendar year 2025.

In accordance with a July 2007 memorandum of understanding between the Commission, St. Mary’s College (College), and the Department of General Services regarding the capital project for the *Center*, the College was responsible for the *Center’s* construction, including procuring, monitoring, and paying contractors. Therefore, the scope of our audit of the Commission did not include

reviewing the *Center's* construction. According to the State's records, fiscal year 2024 capital expenditures totaled approximately \$5.8 million.

Commission's Agreement with St. Mary's College of Maryland for Support Services

The Commission has a longstanding Letter of Agreement (LOA) with the College that has not been updated since it was initially prepared in 1997.³ According to the LOA, the College provides support services, such as for procurement, payment and payroll processing, maintenance of personnel and accounting records, and other related fiscal functions, to the Commission. Additionally, the LOA provides for the Commission to request additional services, and the Commission obtained assistance with capital projects from the College over the years. For example, as noted above, the Commission and the College executed a memorandum of understanding for the *Maryland Heritage Interpretive Center* capital project.

Performance Audit Report and Law Change

The April 2022 *Joint Chairmen's Report* (JCR) noted concerns about the financial management practices at the Commission and required a certified public accounting firm to conduct a performance audit to evaluate the efficiency and effectiveness of the financial management practices including procurement by the Commission. The performance audit report was submitted to the Maryland General Assembly's Senate Budget and Taxation Committee and the House Appropriations Committee in March 2023 and identified several deficiencies, including:

- No documented policies and procedures over procurement, disbursements, purchasing cards, human resources, payroll, cash management, fleet management, property management, and community events which align operating procedures to applicable State laws and regulations.
- No detailed analysis over key performance indicators in critical operating areas, such as property management, onsite bed and breakfast operations, community events, fleet and property management, and deferred maintenance on the Commission's assets.
- No updated operating agreements with critical partners, such as the Historic St. Mary's City Foundation (Foundation) and the College.

³ Our audit of the College dated December 18, 2024 and the financial management practices performance audit of the Commission recommended that the Commission should update the LOA with the College.

- No coordinated and cooperative efforts with key constituents, such as the College, critical to assisting the Commission to achieve its strategic objectives.

As a result of the performance audit, Chapter 129, Laws of Maryland, 2023 effective June 1, 2023 made numerous changes to the governance of the Commission including altering the Commission’s membership, requiring the Commission to develop and publish written policies regarding its operating procedures, and authorizing and establishing rules for the Commission to collaborate with affiliated nonprofit organizations, including the Foundation.

Additionally, the April 2024 JCR required the Commission to prepare a report detailing the progress toward full implementation of all performance audit report recommendations, examples of how each recommendation is being implemented, and a timeline for implementing all recommendations. According to the Commission report, it had addressed the recommendations except for updating an agreement with the Foundation, which we comment on in Finding 1.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated February 23, 2021. We determined that the Commission did not satisfactorily address the finding, which is repeated in this report.

Findings and Recommendations

Affiliated Foundation

Finding 1

The Historic St. Mary’s City Commission’s (Commission) memorandum of agreement (MOA) with its affiliated foundation was not comprehensive, as it did not address policies and procedures for key areas such as purchases, ethics, and investments.

Analysis

The Commission’s MOA with its affiliated foundation was not comprehensive, as it did not address policies and procedures for key areas such as purchases, ethics, and investments. The affiliated foundation was created in October 1982 solely to support the work of the Commission through fundraising and administering

grants. According to the foundation's fiscal year 2023 audited financial statements, revenues and expenditures totaled approximately \$276,000 and \$291,000, respectively. Additionally, as of June 30, 2023, the foundation's assets totaled approximately \$508,000, which primarily consisted of investments of \$343,000 and cash totaling \$158,000.

The Commission's MOA with the foundation was created in January 2001⁴ and defines the roles and responsibilities of the Commission and the foundation. Our review of the MOA disclosed the following conditions.

- The MOA did not address the foundation's purchases of goods and services on behalf of the Commission. During the period from July 2020 to August 2024, the foundation's support of the Commission was primarily through the purchase of goods and services related to programs and supporting operations. The MOA did not include any requirements for these purchases to ensure they were procured in accordance with State procurement regulations or the procurement policies and procedures of St. Mary's College of Maryland (College), which the Commission advised us that it followed. The College's procurement policies require that three proposals be obtained for contracts between \$10,000 and \$50,000.
- The MOA did not require the foundation to adopt an ethics policy, approved by the State Ethics Commission (SEC), to address standards of conduct, ethics training, reporting of potential ethics violations, and completing annual financial disclosures by board members and officers. Such a policy would ensure the integrity of the foundation's board and its processes and should include a requirement to advise the Commission of conflicts of interest issues. As of September 2024, the affiliated foundation had 12 board members, who were collectively responsible for managing the foundation's business and fiscal affairs which included fundraising, administering grant funds it receives, and approving expenditures to support the Commission's programing services and events.
- The MOA did not require the foundation to establish an investment policy for funds collected on behalf of the Commission. An investment policy would address controls over collected funds including proper collateralization of funds, the use of interest-bearing accounts, and procedures for the accounting and reporting of fund balances. The policy would also address the maximum

⁴ In accordance with Chapter 129, Laws of Maryland 2023, effective June 1, 2023, the Education Article, Section 24-508, of the Annotated Code of Maryland was revised to require the Commission to renew and/or update its MOA with the Foundation at least once every three years.

amount of unrestricted funds the foundation could retain before transferring the funds to the Commission. The existing MOA allows the Commission to use unrestricted funds (not designated for a specific purpose by the foundation's board or donors) it receives from the foundation for projects at its discretion. As of June 30, 2023, unrestricted funds held by the foundation totaled approximately \$155,000.

Similar conditions were noted in our preceding audit report. In its response to that report, the Commission stated it would revise its MOA with the affiliated foundation by December 2021 for the areas noted above. However, at the time of our audit, the Commission had not yet implemented the changes and advised us that it was in the process of updating its MOA which were discussed by its board in September 2024.

Recommendation 1

We recommend that the Commission revise its MOA with its affiliated foundation to, at the least,

- a. ensure goods and services purchased on behalf of the Commission by the foundation are procured in a manner consistent with the College's procurement policies and procedures (repeat),**
- b. establish an ethics policy approved by the SEC and require periodic monitoring of foundation board members' compliance with the policy and reporting to the Commission (repeat), and**
- c. establish an investment policy that ensures funds collected by the foundation are properly collateralized and safeguarded and that addresses when unrestricted funds should be transferred to the Commission (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Historic St. Mary's City Commission for the period beginning July 1, 2020 and ending August 16, 2024. 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 Commission'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 cash receipts, the affiliated foundation, and disbursements. We also determined the status of the finding contained in our preceding audit report.

Our audit did not include certain support services provided to the Commission by St. Mary's College of Maryland. These support services (such as payment processing, payroll processing, maintenance of personnel and accounting records and related fiscal functions) are included within the scope of our audit of the College.

Our assessment of internal controls was based on the Commission's 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, 2020 to August 16, 2024, 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 Commission'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 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 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.

The Commission'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 the Commission, 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 Commission'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 applicable laws, rules, or regulations. Other less significant findings were communicated to the Commission that did not warrant inclusion in this report.

The Commission's 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 Commission regarding the results of our review of its response.

APPENDIX

HISTORIC ST. MARY'S CITY

A MUSEUM OF HISTORY & ARCHAEOLOGY AT
MARYLAND'S FIRST CAPITAL

18 April 2025

Brian S. Tanen, CPA, CFE
Legislative Auditor
Department of Legislative Service
Office of Legislative Audits
Maryland General Assembly
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Dear Mr. Tanen:

The Historic St. Mary's City Commission is in receipt of your correspondence dated March 27, 2025, requesting the agency's responses to draft audit report on the Commission for the period beginning July 1, 2020 and ending August 16, 2024. Per your request, we are pleased to submit our response to the findings.

The Commission does not dispute the finding and is already in the process of revising its MOU with the Historic St. Mary's City Foundation to comply with audit recommendations. It is our hope to have these revisions completed no later than July 30, 2025.

Should you have any questions or need additional information, please don't hesitate to contact me. It has been a pleasure to work with your office.

Sincerely,



John L. Seidel, Ph.D.
CEO/Executive Director

Attachments

cc: Admiral Tim Heely, Chair, Historic St. Mary's City Commission
Douglas M. Hunter, Director, Finance HSMCC

P.O. BOX 39, ST. MARY'S CITY, MARYLAND 20686

Wes Moore, Governor John L. Seidel, Ph.D., Executive Director Rear Admiral Tim Heely, USN (retired), Chairman

Historic St. Mary's City Commission

Agency Response Form

Affiliated Foundation

Finding 1

The Historic St. Mary's City Commission's (Commission) memorandum of agreement (MOA) with its affiliated foundation was not comprehensive, as it did not address policies and procedures for key areas such as purchases, ethics, and investments.

We recommend that the Commission revise its MOA with its affiliated foundation to, at the least,

- a. ensure goods and services purchased on behalf of the Commission by the foundation are procured in a manner consistent with the College's procurement policies and procedures (repeat),
- b. establish an ethics policy approved by the SEC and require periodic monitoring of foundation board members' compliance with the policy and reporting to the Commission (repeat), and
- c. establish an investment policy that ensures funds collected by the foundation are properly collateralized and safeguarded and that addresses when unrestricted funds should be transferred to the Commission (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	None.		
Recommendation 1a	Agree	Estimated Completion Date:	July 30, 2025
Please provide details of corrective action or explain disagreement.	HSMCC has added the language concerning procurement to the draft MOU with the Foundation, with intent to move this through approvals for adoption by the end of July 2025.		
Recommendation 1b	Agree	Estimated Completion Date:	July 30, 2025
Please provide details of corrective action or explain disagreement.	HSMCC has added the language concerning conflict of interest policy to the draft MOU with the Foundation, with intent to move this through approvals for adoption by the end of July 2025.		
Recommendation 1c	Agree	Estimated Completion Date:	July 30, 2025

Historic St. Mary's City Commission

Agency Response Form

Please provide details of corrective action or explain disagreement.	HSMCC has added the language concerning investment policy and the transfer of unrestricted funds to the draft MOU with the Foundation, with intent to move this through approvals for adoption by the end of July 2025.
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AUDIT TEAM

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