

Audit Report

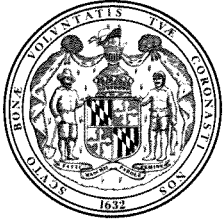
Maryland African American Museum Corporation

September 2013



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

Karl S. Aro
Executive Director

September 19, 2013

Thomas J. Barnickel III, CPA
Legislative Auditor

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

Ladies and Gentlemen:

We have audited the Maryland African American Museum Corporation (MAAMC) for the period beginning February 24, 2010 and ending March 11, 2013. MAAMC, along with its Board of Directors, oversees the programs of the Reginald F. Lewis Museum of Maryland African American History and Culture.

Our audit disclosed that MAAMC did not comply with certain provisions of its endowment fund investment policy. For example, MAAMC could not provide documentation that the Board's Finance and Audit Committee actively monitored and directed its investments in accordance with its investment policy and we noted that, as of February 2013, equity investments exceeded the percentage specified in the investment policy. MAAMC also did not obtain required conflict of interest statements from its financial managers and did not prepare and submit annual reports for 2011 and 2012 to the Governor and the General Assembly, as required by State law. Finally, adequate controls were not established over its museum collections of art and historical artifacts.

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

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Background Information

Agency Responsibilities

The Maryland African American Museum Corporation (MAAMC) was created by State law in 1998 to oversee the development and future programs of the Reginald F. Lewis Museum of Maryland African American History and Culture located in Baltimore City, which opened to the public in June 2005. MAAMC is constituted as a public instrumentality and an independent unit in the Executive Branch. A Board of Directors manages the affairs of MAAMC, which appoints an executive director to direct and supervise its administrative and technical affairs.

According to the State's records, during fiscal year 2012, MAAMC's operating expenditures totaled approximately \$3.1 million, which consisted of \$2.5 million in general fund expenditures and \$600,000 in privately funded expenditures.

State Grants

Each year MAAMC enters into a Memorandum of Understanding with the Department of Budget and Management (DBM) which requires that funding from State general fund grants should support no more than 50 percent of MAAMC's operating expenses. The State general fund grants totaled \$2.1 million in fiscal year 2010 and \$2 million each year for fiscal years 2011 and 2012. During fiscal years 2010, 2011, and 2012 MAAMC was unable to generate sufficient revenue to cover 50 percent of total operating expenses. According to the State's records, MAAMC collected privately raised revenues totaling approximately \$1.6 million, \$1.7 million, and \$600,000 during fiscal years 2010, 2011, and 2012, respectively. DBM granted MAAMC a waiver of the 50 percent funding requirement each year, which allowed MAAMC to retain the entire State grant. During fiscal year 2012, because museum memberships and donor contributions decreased significantly, MAAMC was unable to fund its fiscal year 2012 operating expenses; consequently, the General Assembly granted MAAMC a deficiency appropriation of \$450,000.

In November 2012, MAAMC submitted a business plan to the Secretary of DBM as a means to address its declining revenues. The plan incorporated recommendations from a management consultant and established marketing and fundraising goals, relying on a thorough review of marketing, visibility, and development initiatives, as well as a fully engaged Board of Directors to assist in fundraising.

Financial Statement Audits

MAAMC engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2010, 2011, and 2012. In the related audit reports, the firm stated that MAAMC's financial statements were presented fairly in conformity with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report dated September 1, 2010. We determined that MAAMC satisfactorily addressed four findings. The remaining finding is repeated in this report.

Findings and Recommendations

Endowment Fund

Finding 1

The Maryland African American Museum Corporation (MAAMC) did not comply with its endowment fund investment policy with respect to oversight of investments and conflict of interest disclosure requirements from financial managers.

Analysis

MAAMC did not comply with certain provisions of its endowment fund investment policy. Specifically, our review disclosed the following conditions:

- MAAMC could not provide documentation that the Finance and Audit Committee (FAC) of its Board of Directors monitored and directed its endowment investments. The endowment fund investment policy requires the FAC to obtain monthly reports on the investment performance, review the investment policy annually, and meet with the financial managers at least once a year. However, MAAMC confirmed that no FAC meetings were held during our audit period to evidence that these requirements were met. The policy also specifies the target asset mix. For example, 40 to 60 percent of the endowment investments should be in equity investments. However, our review of the investment statements as of February 28, 2013 disclosed that equity investments accounted for 72 percent of total endowment fund investments. According to the policy, the overall financial objectives of the endowment are to provide income for MAAMC's current and future operations and to increase the value of the endowment. Adherence to the policy would help ensure these objectives are met.
- MAAMC did not receive conflict of interest statements from its two financial managers. The investment policy requires the financial managers certify, at least annually, that neither the firm nor any of its partners, members, or employees has any relationship with MAAMC or its directors that could appear to impair either the good faith judgment of the firm to act in the best interests of MAAMC with respect to MAAMC's accounts or the good faith judgment of MAAMC with respect to the investments and choice of managers. After we brought this to MAAMC's attention, it received the required conflict of interest statement from one manager, dated April 11, 2013.

According to the financial manager statements, endowment fund investments totaled \$5.1 million as of February 28, 2013. Similar conditions were commented upon in our preceding audit report.

Recommendation 1

We recommend that MAAMC

- a. ensure the FAC properly monitors and directs investments in accordance with its investment policy and retains documentation to support these efforts (repeat), and**
- b. obtain the required conflict of interest documentation from the financial managers and properly address any conflicts (repeat).**

Annual Reports

Finding 2

MAAMC did not prepare and submit annual reports to the Governor and the General Assembly, as required by State law.

Analysis

As of March 2013, MAAMC had not prepared and submitted annual reports for 2011 and 2012 to the Governor and the General Assembly, as required by the State law. Specifically, State law requires MAAMC to submit two reports to the Governor and the General Assembly each year. For example, the annual financial report for fiscal year 2012 was due by September 30, 2012. These reports should contain, at a minimum, the complete operating and financial statements covering MAAMC's operations during the preceding fiscal year; information about visitors served, volunteer contributions, and monetary donations; and any recommendations or requests MAAMC considers appropriate to further the mission of the museum.

These annual reports would inform the Governor and the General Assembly of MAAMC's efforts to meet the funding requirements of its Memorandum of Understanding (MOU) with DBM. As noted previously in this report (page 4), the MOU requires that funding from State general fund grants support no more than 50 percent of MAAMC's operating expenses.

Recommendation 2

We recommend that MAAMC submit annual reports to the Governor and the Maryland General Assembly, as required by State law.

Museum Collections of Art and Historical Artifacts

Finding 3

Adequate controls were not established over MAAMC's museum collections of art and historical artifacts.

Analysis

Adequate controls were not established over MAAMC's museum collections of art and historical artifacts that, according to its detail records, totaled approximately \$1.46 million as of April 2013. Specifically, MAAMC did not maintain an independent control record for its museum collections. An independent control record would help to maintain accountability over the collections and to ensure that all museum collections additions and removals have been properly recorded.

We also noted that the employee who maintained the detail records of MAAMC museum collections also had physical access to the museum collections and was responsible for conducting the related physical inventories. Furthermore, physical inventories of the collections were not conducted on a timely basis. As of March 2013, there were no inventory dates included in the records for 950 of 5,200 items to document that the items were subject to a physical inventory within the last three years, as required by its policy.

Recommendation 3

We recommend that MAAMC

- a. maintain a control record of its museum collections that is independent of its detail records;**
- b. separate the duties of maintaining the detail records, having physical access, and conducting physical inventories; and**
- c. conduct a complete physical inventory at least every three years as required, reconcile the results with the detail records, and investigate any differences.**

We advised MAAMC on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have audited the Maryland African American Museum Corporation (MAAMC) for the period beginning February 24, 2010 and ending March 11, 2013. 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 MAAMC's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included endowment investments, purchases and disbursements, cash receipts, payroll, and museum collection inventories. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MAAMC's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

MAAMC'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.

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 findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MAAMC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MAAMC that did not warrant inclusion in this report.

MAAMC's response to our findings 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 MAAMC regarding the results of our review of its response.

APPENDIX



REGINALD F. LEWIS MUSEUM
of Maryland African American
History & Culture

September 18, 2013

Mr. Thomas J. Barnickel, III, CPA
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Please find enclosed the Audit Response for the Maryland African American Museum Corporation.

Thank you,


A. Skipp Sanders
Executive Director

Enclosure



REGINALD F. LEWIS MUSEUM
of Maryland African American
History & Culture

Maryland African American Museum Corporation

Audit Responses

September 18, 2013

Finding Number 1

Maryland African American Museum Corporation (MAAMC) concurs with finding 1. In addition to the Finance and Audit Committee MAAMC will form an Investment Committee. The Investment Committee will revisit the endowment fund investment policy, recommend changes to the Board of Directors, monitor and direct investments in accordance with the revisited policy, maintain a record of its actions, and report quarterly to the Board of Directors on the activity of the committee.

As stated, MAAMC was able to obtain the required conflict of interest statement, dated April 11, 2013, from one manager. We are working with the Board of Directors' Finance and Audit Committee and the second fund manager to resolve this issue.

Finding Number 2

MAAMC concurs with finding 2. A draft of the FY 2011 annual report has been prepared and will be submitted by the end of this calendar year. The FY 2012 annual report was submitted on April 19, 2013. The FY 2013 Annual Report is being drafted for submission by September 30, 2013.

The hire of an Associate Director of Development during the week of September 16, 2013 ends a more than a two year long vacancy in that position and enables MAAMC to continue the responsibility for preparing future annual reports appropriately to that position.

Finding Number 3

- a. MAAMC concurs with Recommendation 3a, and will maintain a control record of its museum collections that is independent of its detail records.
- b. MAAMC concurs with Recommendation 3b.
- c. MAAMC concurs with Recommendation 3c. MAAMC will record inventory dates into the database in a timely manner, will reconcile results with the detail records, and investigate any differences.

AUDIT TEAM

Bekana Edossa, CPA, CFE
Audit Manager

J. Alexander Twigg
Senior Auditor