

Audit Report

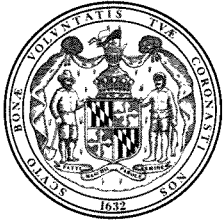
State Archives

April 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

Thomas J. Barnickel III, CPA
Legislative Auditor

April 16, 2013

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 State Archives for the period beginning November 17, 2009 and ending October 22, 2012. 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and for certain designated private records and is responsible for preserving and maintaining certain artwork and historical documents of cultural significance.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 custody and record keeping deficiencies with respect to the State Archives' artistic property. Additionally, State Archives was using an outdated and vulnerable operating system on its servers that support Internet communications to numerous State agencies.

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,

A handwritten signature in black ink that reads "Thomas J. Barnickel III".

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private records of permanent value, and is responsible for preserving and maintaining a collection of artwork and historical documents of cultural significance.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 an archival microfilm 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 hosting websites. According to the State's records, total State Archives expenditures were approximately \$8.7 million during fiscal year 2012.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the one finding included in our preceding audit report dated June 10, 2010. We determined that the State Archives satisfactorily addressed this finding.

Findings and Recommendations

Equipment

Finding 1

The State Archives did not establish adequate internal control over artistic property.

Analysis

The State Archives did not establish adequate internal control and record keeping procedures over the State's artistic property. As a result, items could be misplaced or misappropriated without detection. According to the State Archives' detail property records as of January 2, 2013, the State owned 2,106 art collections, which included paintings, sculptures, and decorative arts and furnishings. The insurance value of these art collections totaled approximately \$31.4 million. Our audit disclosed the following conditions:

- A property control account was not maintained as required. At the end of fiscal year 2010, the State Archives, with the approval of the Comptroller of Maryland's General Accounting Division (GAD), removed the art collections from the State's fixed asset records, which previously served as the control account. The removal was made consistent with national standards for museum collections which do not record art collections as assets. In its approval, GAD indicated the decision to remove the art collections from the State's fixed asset records did not alter or replace inventory control policies and procedures required by the Department of General Services. However, the State Archives did not establish a replacement control account for the artistic property. A control account provides a continuing summary of transactions and a total dollar value control over amounts recorded in the related detail records.
- Three employees had physical access to the artistic property and also had the capability to modify the related detail records. In addition, one of these employees conducted the physical inventory of the State's artistic property.

The Department of General Services' *Inventory Control Manual* requires that a control account be maintained and that the account balance be periodically reconciled with the aggregate value of the detail equipment records. The *Manual* also requires the segregation of the duties of inventory record keeping, inventory custody, and physical inventory taking whenever practical or economically feasible.

Recommendation 1

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

- a. establish a control account independent of the detail artistic property records and periodically reconcile the control account to the detail records; and**
- b. segregate the duties of inventory record keeping, inventory custody, and physical inventory taking.**

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

Information Systems and Control

Finding 2

The State Archives was using an outdated and vulnerable operating system on the five servers supporting a critical service for State agencies.

Analysis

The State Archives was using an outdated and vulnerable operating system on its five production servers supporting a critical translation service. The State Archives provides various information technology services to more than 30 State agencies and departments. The critical service provided to numerous State agencies is the translation of Internet domain names to numerical Internet Protocol (IP) addresses which is essential for Internet communications.

We determined that the same operating system and version was used on all five of the production servers. This operating system was released in December 2007 and had not been updated by the State Archives for more than five years. At the time of our test work on February 14, 2013, we identified numerous known vulnerabilities associated with this December 2007 operating system.

The failure to install software patches, fixes, service packs, and upgrades that address significant vulnerabilities leaves a computer vulnerable to security exploits. If these servers were compromised and the critical translation service was disrupted or corrupted, it could adversely affect Internet communications for all State agencies using this State Archives' service. The Department of Information Technology's (DoIT) *Information Security Policy* requires that, on a regular basis, agencies receive and review information system security alerts and advisories for critical software that they use, such as operating system and database software, issue alerts to appropriate personnel, and take the appropriate follow-up actions.

Recommendation 2

We recommend that the State Archives comply with the aforementioned DoIT *Information Security Policy* and ensure that the operating systems for its production servers supporting this critical translation service are updated for all critical security-related patches and fixes on a timely basis.

Audit Scope, Objectives, and Methodology

We have audited the State Archives for the period beginning November 17, 2009 and ending October 22, 2012. 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 Archives' 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 finding 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 cash receipts, inventories, payroll, information systems, and compliance with budgetary authorizations related to the State Archives Fund and the Archives Endowment Fund. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the State Archives' 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.

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.

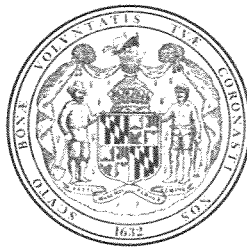
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 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. These conditions also represent significant instances 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 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 the State Archives regarding the results of our review of its response.

Hon. Martin O'Malley
Governor
Hon. Anthony G. Brown
Lt. Governor
Edward C. Papenfuse, Ph.D.
State Archivist and
Commissioner of Land Patents
Timothy D. Baker
Deputy State Archivist
Matthew P. Lalumia
Chairman, Maryland Commission on
Artistic Property



Hall of Records Commission:
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Hon. Michael E. Busch
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Hon. Nancy K. Kopp
Burton K. Kummerow
Hon. Thomas V. Mike Miller, Jr.
Christopher B. Nelson
David Wilson, Ed.D.

April 10, 2013

Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
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Dear Mr. Barnickel:

Thank you for your letter of April 5, 2013. With respect to the audit covering the period November 17, 2009 to October 22, 2012, we concur with the finds and recommendations. Specifically, we note the following actions:

Finding 1

Within one month, the Fiscal Administration unit of the Maryland State Archives will establish a control account independent of the staff of the Commission on Artistic Property. The control account will be reconciled on a monthly basis. In addition, there will be a more distinct separation of the duties of detailed inventory record keeping, custody of the inventory records and the taking of the yearly physical inventory.

Finding 2

Within six months, the Archives will acquire replacement servers, update the servers with the latest operating systems and security patches, test the configuration of the servers and deploy the replacement devices. Patches will be applied as soon as they are published.

We trust that this is responsive to the items discussed.

Sincerely,

Edward C. Papenfuse
State Archivist and
Commissioner of Land Patents

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