

Audit Report

State Archives

June 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

June 10, 2010

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., 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 December 19, 2006 and ending November 16, 2009. The Archives is the central depository for Maryland government records and for certain designated private records of permanent value, and is responsible for preserving and maintaining certain artwork and historical documents of cultural significance.

Our audit disclosed that the Archives did not maintain its detail equipment records and conduct physical inventories of equipment as required.

The 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 Archives.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The State Archives is an independent unit of the State Government within the Executive Branch. The Archives' central mission is to identify, appraise, acquire, describe, preserve, and make electronically available the permanent records of the past. The Archives serves as the central depository for Maryland 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private records of permanent value, and is responsible for preserving and maintaining a collection of artwork and historical documents of cultural significance.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 Archives maintains an archival microfilm copy of all land and court records, and updates the *Maryland Manual Online* website. The Archives also performs a number of computer-related services for other State agencies, such as hosting websites. According to the State's records, total Archives expenditures were approximately \$8.4 million during fiscal year 2009.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the five findings included in our preceding audit report dated December 5, 2007. We determined that the Archives satisfactorily addressed those findings.

Finding and Recommendation

Equipment

Finding 1

The State Archives did not record certain purchased equipment items, and did not properly conduct nor reconcile the results of its physical inventories.

Analysis

The State Archives did not record certain purchased equipment items, properly conduct physical inventories, and reconcile the results of its physical inventories to the related detail records, as required. According to its records, as of June 30, 2009, the Archives' equipment balance totaled approximately \$10.3 million, of

which sensitive equipment items (primarily consisting of information technology equipment) totaled approximately \$9.1 million. We noted the following conditions:

- Based on our test of 29 equipment items purchased during the audit period totaling \$611,000, as of December 15, 2009, the Archives had not recorded in its detail equipment records 28 sensitive equipment items totaling approximately \$308,000.
- The Archives did not adequately reconcile the results of its fiscal year 2009 physical inventory of sensitive equipment items to the related detail records. Specifically, the Archives did not compare the inventory results to the records and account for any noted differences.
- The Archives did not conduct complete physical inventories as required. Specifically, when performing its June 2008 physical inventory, the Archives did not locate all sensitive and non-sensitive equipment items included in its records. We were advised by Archives' management that it assumed the items not located were at a specific offsite location; however, the Archives did not include this location in its inventory and took no further action to account for these items.

The Department of General Services' *Inventory Control Manual* prescribes the manner by which State agencies shall maintain their equipment records, and conduct physical inventories, including reconciling the results of physical inventories with the related equipment records.

Recommendation 1

We recommend that the Archives maintain its detail equipment records and conduct physical inventories of equipment in accordance with the Department of General Services' *Inventory Control Manual*.

Audit Scope, Objectives, and Methodology

We have audited the State Archives for the period beginning December 19, 2006 and ending November 16, 2009. 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 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 cash receipts, inventories, payroll, and compliance with budgetary authorizations. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the 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 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.

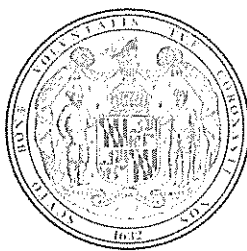
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 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.

The response from the Archives 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 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



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Earl S. Richardson, Ph.D.

June 7, 2010

Mr. Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Room 1202
301 West Preston Street
Baltimore MD 21201

Dear Mr. Myers:

Thank you for your letter of May 26, 2010.

With respect to the singular exception item, we acknowledge the finding and concur with the recommendation. Specifically, we note the following actions:

- o The 28 sensitive equipment items were added to the Fixed Asset Subsystem on March 19, 2010.
- o As of March 9, 2010, the physical inventory of the off-site location had been completed and reconciled to the detail records. The improperly disposed of items, which were all well past useful life, were submitted as "Missing and/or Stolen Property" to the Department of General Services Inventory Standards and Support Services Division (DGS). DGS has since authorized the disposal of these items, totaling \$50,944.45 (representing 0.5% of the total inventory) and they were removed from the Fixed Asset Subsystem on June 4, 2010. The remaining items inventoried at the off-site location are no longer in service and are awaiting instructions for disposal.

In the future, the Archives will maintain detail equipment records and conduct physical inventories of equipment in accordance with DGS' *Inventory Control Manual*.

Sincerely,

Edward C. Papenfuse
State Archivist and
Commissioner of Land Patents

cc: The Honorable Robert M. Bell

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