Audit Report

# Historic St. Mary's City Commission

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

**Thomas J. Barnickel III, CPA**
Legislative Auditor

April 29, 2016

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 audited the Historic St. Mary's City Commission for the period beginning July 1, 2012 and ending August 23, 2015. The Commission 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.

Our audit disclosed that controls were not in place to help ensure all cash receipts were deposited.

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

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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# Background Information

## Agency Responsibilities

The Historic St. Mary's City Commission consists of 17 members and 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 is located in St. Mary's City and operates an outdoor museum and archeological park and an on-site bed and breakfast. According to the State's records, the Commission's fiscal year 2015 expenses totaled approximately $2.9 million, the vast majority of which represented payroll costs for its 45 regular and contractual employees.

## Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated July 11, 2013. We determined that the Commission satisfactorily addressed one of these findings. The remaining finding is repeated in this report.

# Findings and Recommendations

## Cash Receipts

**Finding 1**
**Verifications that all collections were forwarded for deposit were performed by an employee who also processed the related collections.**

**Analysis**
Independent verifications were not performed to help ensure that all collections were deposited. The Commission's collections, which totaled approximately $474,000 during fiscal year 2015, were forwarded to St. Mary's College of Maryland for deposit. Our review disclosed that the individual who performed the verifications to ensure recorded collections were forwarded to the College also processed the related collections. Furthermore, the individual did not document the verifications. As a result, there was a lack of assurance that all collections were forwarded to the College and ultimately deposited.

A similar condition was commented upon in our preceding audit report. The Comptroller of Maryland's *Accounting Procedures Manual* requires that receipts recorded on initial source documents be traced to deposit by an employee independent of the cash receipts process.

**Recommendation 1**
**We recommend that the Commission ensure that an employee, independent of the collection function, verifies that all recorded collections were submitted for deposit with St. Mary's College of Maryland and that such verifications are documented (repeat). We advised the Commission on accomplishing the necessary separation of duties using existing personnel.**

## 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, 2012 and ending August 23, 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 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, cash disbursements, and payroll adjustments. We also determined the status of the findings included 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 audits of the College.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Commission's 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 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.

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 Commission's ability to maintain reliable financial records, operate effectively and efficiently and/or comply with applicable laws, rules, and

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

The Commission's 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 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

April 26, 2016

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

Dear Mr. Barnickel:

We are providing this letter in response to draft audit report for the Historic St. Mary's City Commission (the Commission) for the period July 1, 2012 and ending August 23, 2015. Below is the agency's response to the finding of the audit.

- **Finding 1** regards controls over cash receipts and deposits. The Commission has had implemented a system whereby deposits forwarded to St. Mary's College of Maryland will be verified independently by an individual that does not have access to Collections. **Response:** The Commission expected our support services the St. Mary's College of Maryland business office to be the final step in the process, the independent verification that the cash receipts from the points of sale matched the deposit. The Commission has now appointed a staff member that does not have access to Collections to perform this verification.

The Commission does not dispute the finding and has already implemented a verification to comply with recommendations from the Department of Legislative Audits.

**Regina M. Faden, Ph.D.** 4/26/16
Executive Director Date

**Douglas Hunter** 4/26/16
Director of Finance Date

## AUDIT TEAM

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