

Audit Report

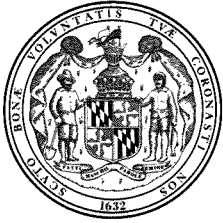
Historic St. Mary's City Commission

July 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

July 11, 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 Historic St. Mary's City Commission for the period beginning August 3, 2009 and ending June 30, 2012. 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 adequate controls were not in place over cash receipts and the Commission did not follow its procurement policy for certain services.

We wish to acknowledge the cooperation extended to us by the Commission during the course of this audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Commission, located in St. Mary's City, 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 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 2012 expenses totaled approximately \$2.8 million, of which the vast majority represented payroll costs for its 46 regular and contractual employees.

Findings and Recommendations

Cash Receipts

Finding 1

Proper controls were not established to ensure all cash receipts were deposited timely.

Analysis

The Commission had not established adequate internal controls over cash receipts, which totaled approximately \$645,000 during fiscal year 2012. The Commission's collections were forwarded to St. Mary's College of Maryland for deposit.

Specifically, independent verifications were not performed to ensure that all collections recorded were submitted for deposit with the College. Rather, the individual who performed the verifications had routine access to the collections. In addition, cash receipts were not forwarded to the College for deposit on a timely basis. Our test of 10 days of collections, totaling \$10,820, determined that on 8 days tested, deposits totaling \$10,631 were taken to the College between two and eight business days after receipt.

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. The *Manual* further requires that cash collections be deposited by the following business day.

Recommendation 1

We recommend that the Commission

- a. ensure that an employee, independent of the cash receipts function, verifies that all recorded collections were submitted for deposit with St. Mary's College of Maryland and properly documents this comparison; and**
- b. forward cash receipts to the College for deposit by the following business day.**

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

Procurement of Services

Finding 2

The Commission did not follow its procurement policy when procuring services from one vendor.

Analysis

The Commission procured services from one vendor without completing a competitive process and executing a written contract. Our test of 13 disbursements made during the period from July 2010 through December 2012, totaling approximately \$95,000, disclosed 4 disbursements to the same vendor totaling \$23,190 for which the Commission did not follow its procurement policy. The vendor was used on two annual special events held at the museum. For example, with respect to its October 2011 request for proposals (RFP), the Commission did not request a price proposal from one of the two qualified bidders as required by the RFP; rather, it negotiated with this aforementioned vendor, which was the qualified bidder that submitted a price proposal. A contract was never formally executed with this vendor. The Commission continued to use the services of this vendor and paid the vendor approximately \$53,000 as of January 2013. Consequently, there is a lack of assurance that the Commission obtained these services at the lowest cost.

The Commission's *Procurement Policy Statement* requires that procurements be advertised, bids be obtained, and purchase orders or contracts be executed for services exceeding \$10,000. According to State records, the Commission's disbursements during fiscal year 2012 totaled approximately \$556,000.

Recommendation 2

We recommend that the Commission comply with its *Procurement Policy Statement* with respect to services procured.

Audit Scope, Objectives, and Methodology

We have audited the Historic St. Mary's City Commission (Commission) for the period beginning August 3, 2009 and ending June 30, 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 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 materiality and risk. The areas addressed by the audit included cash receipts, contract procurements, and payroll adjustments. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Commission'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.

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 accounting records and related fiscal functions) are included within the scope of our audits of the College.

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 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. This report also includes conditions that we consider to be significant instances of noncompliance with applicable laws, rules, and regulations. Other less significant findings were communicated to the Commission that did not warrant inclusion in this report.

The Commission's response to our findings 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 COMMISSION



Post Office Box 39, St. Mary's City, Maryland 20686 240-895-4960 Fax 240-895-4968 800-SMC-1634 www.stmaryscity.org

July 9, 2013

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 beginning August 3, 2009 and ending June 30, 2012. Below is the agency's response to the two findings of the audit.

- **Finding 1** regards controls over cash receipts and deposits. The Commission has already 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. The museum is also working with the College to expand its opportunities to make more frequent deposits to the bank.
- **Finding 2** The lapse in procurement policy procedures related to the services of one vendor occurred while the Commission was in the process of selecting an on-site food service provider. The selection committee did not request a price proposal from the second vendor because the vendor did not meet the Commission's criteria for food service. It then negotiated with the one vendor now providing food service for visitors to HSMCC. The Commission has reviewed its procurement policies and is adhering to its policies.

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

Regina M. Faden, Ph.D.

Executive Director

7/9/13
Date

Douglas Hunter

Director of Finance

7/9/13
Date

AUDIT TEAM

Adam J. Westover, CPA
Audit Manager

Jonathan H. Finglass, CPA
Julia M. King
Senior Auditors

Jared J. Bardall
Staff Auditor