

Audit Report

Maryland African American Museum Corporation

February 2017



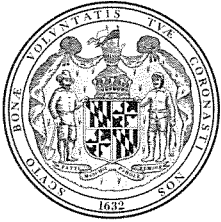
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

February 9, 2017

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Craig J. Zucker, 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 conducted a fiscal compliance audit of the Maryland African American Museum Corporation (MAAMC) for the period beginning March 12, 2013 and ending September 5, 2016. 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. MAAMC could not provide documentation that the Board's Finance and Audit Committee actively monitored and directed its investments, which totaled \$7.3 million as of August 2016, in accordance with its investment policy and we noted that, as of August 2016, equity investments exceeded the percentage specified in the policy. MAAMC also did not obtain required conflict of interest statements from its financial manager.

MAAMC did not always comply with its procurement policies. For example, for certain procurements greater than \$10,000, MAAMC did not obtain the required management approvals and only obtained one proposal and, therefore, the State may not have received the most advantageous prices for the related services. Finally, adequate controls were not established over its museum collections of art and historical artifacts.

MAAMC's 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 MAAMC.

Respectfully submitted,

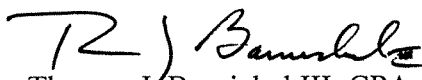

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Background Information	4
Agency Responsibilities	4
State Grants	4
Financial Statement Audits	4
Status of Findings From Preceding Audit Report	5
Findings and Recommendations	6
Endowment Fund	
* Finding 1 – The Maryland African American Museum Corporation (MAAMC) did not comply with certain provisions of its endowment fund investment policy.	6
Purchases	
Finding 2 – MAAMC did not always comply with its procurement policy regarding obtaining written proposals and obtaining management approvals.	7
Museum Collections of Art and Historical Artifacts	
* Finding 3 – Adequate accountability and controls were not established over MAAMC’s collections of art and historical artifacts.	8
Audit Scope, Objectives, and Methodology	10
Agency Response	Appendix

* 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 2016, MAAMC's operating expenditures totaled approximately \$3.96 million, which consisted of \$1.96 million in general fund expenditures and \$2 million 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 million each year for fiscal years 2014 and 2015, and \$1.96 million in fiscal year 2016.

Financial Statement Audits

MAAMC engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2013, 2014, and 2015. In the related audit reports, the firm stated that MAAMC's financial statements presented fairly, in all material respects, the financial position of MAAMC and the respective changes in its net assets and its cash flows for the aforementioned years in accordance 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 three findings contained in our preceding audit report dated September 19, 2013. We determined that MAAMC satisfactorily addressed one of these findings. The remaining two findings are 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 its financial manager.

Analysis

MAAMC did not comply with certain provisions of its endowment fund investment policy.

- MAAMC could not provide documentation that the Finance and Audit Committee (FAC) of its Board of Directors performed certain functions designed to help it monitor and direct its endowment investments. MAAMC's endowment fund investment policy requires the FAC to obtain monthly reports on investment performance and meet with its professional financial manager at least once a year. However, MAAMC was unable to provide documentation from its FAC meetings as evidence that the FAC had met with the financial manager, reviewed the required reports, and evaluated investment performance during our audit period. For example, 40 to 60 percent of the endowment investments should be in equity investments according to its policy. However, our review of the investment statements as of August 31, 2016 disclosed that equity investments accounted for 69 percent of total endowment fund investments.
- MAAMC did not receive conflict of interest statements from its current financial manager during our audit period. The investment policy requires the financial manager to 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 or 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 its managers. After we brought this to MAAMC's attention, it received the required conflict of interest statement from its financial manager, dated September 16, 2016.

According to the investment policy, the overall financial objectives of the endowment is 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 that these objectives are met. According to statements from the financial manager, endowment fund investments totaled \$7.3 million as of August 31, 2016. Similar conditions were commented upon in our two preceding audit reports.

Recommendation 1

We recommend that MAAMC

- a. ensure that 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 financial managers and properly address any conflicts (repeat).**

Purchases

Finding 2

MAAMC did not always comply with its written procurement policy regarding obtaining written proposals and obtaining management approvals.

Analysis

MAAMC did not always comply with its written procurement policy. While MAAMC is exempt from following State procurement regulations, it has adopted a procurement policy that is designed, in part, to ensure that MAAMC's Board of Directors is apprised of significant procurements and can assist the Board in exercising its oversight function. According to MAAMC's records, disbursement transmittals totaled approximately \$10.4 million between fiscal years 2014 and 2016. Our review of procurements relating to 10 disbursements made during fiscal year 2016 disclosed the following conditions with 7 procurements:

- MAAMC did not solicit at least two written proposals for four procurements, each greater than \$10,000, as required by its procurement policy. Specifically, MAAMC only obtained one proposal for these procurements and, consequently, MAAMC lacked assurance that the related contract awards, which totaled \$349,000, provided the State the most advantageous prices for the related services. According to MAAMC's records, disbursements to these four vendors totaled \$339,000 as of June 30, 2016. The awards included, for example, a contract for security services for \$267,000, and exhibit preparation services totaling \$30,000.

- Seven procurements totaling \$488,000, each exceeding \$10,000, did not have documentation of the required approvals of both the Executive Director and Chairman of the Board, and MAAMC had not established written contracts for three of these procurements. Specifically, the Executive Director approved only two of these procurements and the Chairman had not approved any of the seven procurements. Payments to the three vendors without contracts totaled \$146,000 between fiscal years 2014 and 2016. MAAMC's procurement policy requires that procurements in excess of \$10,000 have a written contract that is approved by MAAMC's Executive Director and Chairman of the Board.

Recommendation 2

We recommend that MAAMC comply with its procurement policy.

Specifically, we recommend that MAAMC

- a. obtain at least two written proposals for all procurements greater than \$10,000 as required, and**
- b. ensure that procurements receive the appropriate documented approvals and that written contracts are established in accordance with its policy.**

Museum Collections of Art and Historical Artifacts

Finding 3

Adequate accountability and 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. MAAMC did not maintain an independent control record to help establish accountability over the museum collections and ensure that all museum collection additions and removals are properly recorded.

According to MAAMC's detail records, as of September 2016, MAAMC's collections included 9,243 items. Of this total, 5,460 (59 percent) had not been assigned a value, and the remaining 3,783 items were valued at approximately \$1.6 million.

MAAMC advised us that items were generally only assigned a value when the donor provided an appraisal, and that it lacked the funding necessary to have every item in its collections appraised. Although it may not be cost beneficial to appraise every item in its collections, we noted that MAAMC had not established a policy to require that items with potentially significant value be identified and

assigned a value. The values could be determined through appraisal or other means, such as fair market values of like items.

In addition, the employee who maintained the detail records of MAAMC's museum collections also had physical access to the museum collections and was responsible for recording any needed adjustments to the records based on the results of physical inventories conducted. The separation of these duties is necessary to establish accountability over the museum collections.

Similar conditions regarding the lack of a control record and inadequate separation of duties were commented upon in our preceding audit report.

Recommendation 3

We recommend that MAAMC

- a. maintain a control record of its museum collections that is independent of its detail records (repeat),**
- b. develop a policy to identify items in its collections with potentially significant values and ensure that values are assigned to these items in its records, and**
- c. ensure that employees who maintain the detail records do not have physical access to the collections (repeat).**

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

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland African American Museum Corporation (MAAMC) for the period beginning March 12, 2013 and ending September 5, 2016. 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.

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 endowment investments, purchases and disbursements, cash receipts, payroll, and museum collections inventories. We also determined the status of the findings contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MAAMC'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 Central Payroll Bureau (payroll data). 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 this source were sufficiently reliable for the purposes the data were used during this audit. We also performed various data extracts of pertinent information (such as expenditure data and museum collection inventory) from MAAMC's internal accounting records. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the 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.

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

February 3, 2017

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

Re: Responses to the Audit Report Draft Dated January 2017
for Maryland African American Museum Corporation (MAAMC)

Dear Mr. Barnickel,

Enclosed please find the MAAMC's responses to Legislative Audit Report dated January 2017. If you have any questions, do not hesitate to call me or the Director of Finance & Administration, Alexis Davis, at 443-263-1800.

Sincerely,

Wanda Draper
Executive Director

Enclosure

Cc: Beverly A. Cooper, Chair, Board of Directors, MAAMC

Maryland African American Museum Corporation

Audit Responses

February 3, 2017

Finding Number 1a

We agree with the recommendation. Due to board attrition, the Finance and Audit Committee (FAC) did not have regular meetings with minutes during the period under audit. In May 2016, a new member joined the Board of MAAMC and became Chair of the FAC. At that time, both the Executive Director (ED) and the Director of Finance & Administration (DFA) positions were vacant, leaving the FAC without the staff support needed to function effectively. In October 2016, the new ED joined MAAMC, followed by the DFA in January 2017. The DFA and the FAC Chair met in Jan. 2017 and scheduled FAC bi-monthly meeting dates for the remainder of calendar 2017. Each meeting will include a review of the investments activity and earnings since the previous FAC meeting. After each meeting, minutes will be prepared and filed in accordance with board policy.

Finding Number 1b

We agree with the recommendation. MAAMC's financial manager provided the required conflict of interest statements, dated Sep. 16, 2016 and certified that there is no conflict of interest between the financial manager and the Maryland African American Museum Corporation Endowment fund. Annual conflict of interest statements will be requested by the FAC annually not later than the FAC meeting immediately preceding the fiscal year end.

Finding Number 2

We agree with the recommendations. MAAMC has implemented purchasing procedures where two written proposals are required for all procurements greater than \$10,000. Contracts of \$10,000 and above will be evidenced in writing and executed by the signatures of the ED and the Board Chair. In addition, all purchases will be approved in writing by the ED or in the ED's absence, by the DFA.

Finding Number 3a

We agree with the recommendation. The Collections Management Policy will be updated by March 1, 2017 to include an inventory report process that records detail records of all collections holdings. Under the new policy, the primary recorder will no longer have the authority to accession objects into the collection. The generated report will be composed in an electronic database with hard copies produced quarterly for backup purposes. In addition, an independent control record of the entire collections holdings will be prepared semi-annually and be maintained by the Finance Department.

Finding Number 3b

We agree with the recommendation. The updated Collection Management Policy (refer to Finding 3a, above) will also be updated to provide a temporary, specified monetary value for all objects and items entering the collection. When applicable, temporary valuations will derive from research of fair market values of like objects. Any initial monetary valuation of more than \$25,000 will require an independent third party appraisal, and will carry an independent insurance rider beyond the Museum's general liability insurance. This process was implemented December 1, 2016 for all new, incoming objects. In addition, the process was extended to include the backlog of existing collections with an estimated completions date of June 2018.

Finding Number 3c

We agree with the recommendation. Due to the limited size of the curatorial staff it is impractical to completely segregate the responsibilities for detailed record keeping of collections from custodial holdings. To compensate for this deficiency, the Director of the Curatorial Division, or their designee, will schedule a semi-annual audit of a test sample of the collections to be performed by the DFA, or their designee, to review, evaluate and make recommendations to correct any discrepancies the audit discloses.

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