

Audit Report

---

**Historic St. Mary's City Commission**

February 2021

---



**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

### **Joint Audit and Evaluation Committee**

Senator Clarence K. Lam, M.D. (Senate Chair)	Delegate Carol L. Krimm (House Chair)
Senator Malcolm L. Augustine	Delegate Steven J. Arentz
Senator Adelaide C. Eckardt	Delegate Mark S. Chang
Senator George C. Edwards	Delegate Nicholas P. Charles II
Senator Katie Fry Hester	Delegate Andrea Fletcher Harrison
Senator Cheryl C. Kagan	Delegate Keith E. Haynes
Senator Benjamin F. Kramer	Delegate David Moon
Senator Cory V. McCray	Delegate April R Rose
Senator Justin D. Ready	Delegate Geraldine Valentino-Smith
Senator Craig J. Zucker	One Vacancy

### **To Obtain Further Information**

Office of Legislative Audits  
301 West Preston Street, Room 1202  
Baltimore, Maryland 21201  
Phone: 410-946-5900 · 301-970-5900 · 1-877-486-9964 (Toll Free in Maryland)  
Maryland Relay: 711  
TTY: 410-946-5401 · 301-970-5401  
E-mail: [OLAWebmaster@ola.state.md.us](mailto:OLAWebmaster@ola.state.md.us)  
Website: [www.ola.state.md.us](http://www.ola.state.md.us)

### **To Report Fraud**

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

### **Nondiscrimination Statement**

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber  
Executive Director

February 23, 2021

Gregory A. Hook, CPA  
Legislative Auditor

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee  
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Historic St. Mary's City Commission for the period beginning August 24, 2015 and ending June 30, 2020. 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 the Commission's agreement with its affiliated foundation was not comprehensive, as it did not address policies and procedures for key areas such as purchases, ethics, and investments. For example, the foundation purchased two vehicles, totaling \$32,000, for the Commission without a competitive procurement process as would have been required if the vehicles were procured directly by the Commission.

Our audit also included a review to determine the status of the finding contained in our preceding report. We determined that the Commission satisfactorily addressed this finding.

We conducted our audit fieldwork from April 2020 to December 2020. During this period of time, the Commission's operations were significantly impacted by the COVID-19 pandemic health crisis. Specifically, the Governor's Executive Order, effective March 5, 2020, resulted in the Commission closing its facilities (including its bed and breakfast and gift shop) during the period from March 5, 2020 to July 7, 2020. Consequently, normal programming for the public did not occur and the Commission's special fund revenues were reduced, with a continued reduction from customary revenue levels expected until the COVID-19 crisis is over. Although the Commission's facilities were closed during part of

our fieldwork, the objectives and scope of our audit were not significantly impacted.

The Commission's response to this audit is included as an appendix to this report. We reviewed the response to our finding and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by the Commission and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, prominent initial "G".

Gregory A. Hook, CPA  
Legislative Auditor

## **Background Information**

### **Agency Responsibilities and Financial Information**

The Historic St. Mary's City Commission, an independent unit of state government, 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, a gift shop, and an on-site bed and breakfast.

According to the State's records, during fiscal year 2020, the Commission's operating expenditures totaled approximately \$3.7 million, the vast majority of which represented payroll costs for its 47 regular and contractual employees. These expenditures consisted of approximately \$3.2 million in State general funds and \$521,000 in special funds (primarily from admission fees, facility rentals, gift shop sales, guided tours, property leases, and bed and breakfast rentals).

According to the Department of Budget and Management's fiscal year 2021 Capital Budget *White Book*, the Commission had authorized capital improvement projects with budgeted funds totaling approximately \$7.3 million during the period from July 2015 to June 2020. The largest authorized capital budget totaled \$5 million for the construction of the *Maryland Dove* (a replica of the historical ship called the Dove, an early 17<sup>th</sup> century English trading ship). The project began in January 2019 with an estimated completion date of November 2021 and as of June 2020, expenditures totaled \$2.5 million. According to the Commission's records, fiscal year 2020 capital expenditures totaled approximately \$1.4 million.

### **Status of Finding From Preceding Audit Report**

Our audit included a review to determine the status of the finding contained in our preceding audit report dated April 29, 2016. We determined that the Commission satisfactorily addressed this finding.

# Findings and Recommendations

## Affiliated Foundation

### **Finding 1**

**The Historic St. Mary's City Commission's agreement with its affiliated foundation was not comprehensive, as it did not address policies and procedures for key areas such as purchases, ethics, and investments.**

### **Analysis**

The Commission's agreement with its affiliated foundation was not comprehensive, as it did not address policies and procedures for key areas such as purchases, ethics, and investments. The Historic St. Mary's City Foundation was created in October 1982 solely to support the work of the Commission through fundraising and administering grants. The foundation's board members are elected by the foundation as needed. According to the foundation bylaws, the board can consist of a minimum of 3 members to a maximum of 21 members. The roles and responsibilities of the Commission and the foundation are detailed in a January 2001 memorandum of agreement (MOA). According to the foundation's fiscal year 2019 audited financial statements, revenues and expenditures totaled \$264,000 and \$267,000, respectively. Additionally, as of June 30, 2019, the foundation's assets totaled \$611,000, which primarily consisted of cash and cash equivalents of \$348,000 and a certificate of deposit totaling \$245,000.

- The MOA did not address the foundation's purchases of goods and services on behalf of the Commission. During the period from August 2015 to June 2020, the foundation's support of the Commission was primarily through the purchase of goods and services related to programs and supporting operations. The MOA did not include any requirements for these purchases to ensure they were procured in accordance with the Commission's *Procurement Policy Statement*. The *Statement* requires that procurements be advertised, bids be obtained, and purchase orders or contracts be executed for goods and services exceeding \$10,000.

As a result, goods and services purchased by the foundation for the Commission were not always competitively procured. Our review of foundation disbursement records, which we were provided access to by the Commission, disclosed the foundation purchased two vehicles totaling \$32,000 without a competitive procurement process as would have been required if the vehicles were procured directly by the Commission. The

Commission, on behalf of the foundation, confirmed to us that the foundation did not publically advertise for, nor otherwise obtain, competitive bids at the time the vehicles were procured.

- The MOA did not require the foundation to adopt an ethics policy, approved by the State Ethics Commission, to address standards of conduct, ethics training, reporting of potential ethics violations, and completing annual financial disclosures by board members and officers. Such a policy would ensure the integrity of the foundation’s board and its processes, and should include a requirement to advise the Commission of conflicts of interest issues. As of October 2020, the foundation had 16 board members who were collectively responsible for managing the foundation’s business and fiscal affairs which included fundraising, administering grant funds it receives, and approving expenditures to support the Commission’s programming services and events.
- The MOA did not require the foundation to establish an investment policy for funds collected on behalf of the Commission. An investment policy would address controls over collected funds including proper collateralization of funds, the use of interest bearing accounts, and procedures for the accounting and reporting of fund balances. The policy would also address the maximum amount of unrestricted funds the foundation could retain before transferring the funds to the Commission. The existing MOA allows the Commission to use unrestricted funds (not designated for a specific purpose by the foundation’s board or donors) it receives from the foundation for projects at its discretion. As of June 30 2019, unrestricted funds held by the foundation totaled approximately \$285,000.

### **Recommendation 1**

**We recommend that the Commission revise its MOA with its affiliated foundation to, at the least,**

- a. ensure goods and services purchased on behalf of the Commission by the foundation are procured in a manner consistent with the Commission’s *Procurement Policy Statement*;**
- b. establish a conflict of interest policy approved by the State Ethics Commission and require periodic monitoring of foundation board members’ compliance with the policy and reporting to the Commission; and**
- c. establish an investment policy to ensure funds collected by the foundation are properly collateralized and safeguarded, and that addresses when unrestricted funds should be transferred to the Commission.**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Historic St. Mary's City Commission for the period beginning August 24, 2015 and ending June 30, 2020. 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, disbursements, and payroll. We also determined the status of the finding contained 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 procurement, 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.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of August 24, 2015 to June 30, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of the Commission's operations. 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 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the Commission, were considered by us during the course of this audit.

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 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. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Commission that did not warrant inclusion in this report.

We conducted our audit fieldwork from April 2020 to December 2020. During this period of time, the Commission's operations were significantly impacted by the COVID-19 pandemic health crisis. Specifically, the Governor's Executive Order, effective March 5, 2020, resulted in the Commission closing its facilities (including its bed and breakfast and gift shop) during the period from March 5, 2020 to July 7, 2020. Consequently, normal programming for the public did not occur and the Commission's special fund revenues were reduced, with a continued reduction from customary revenue levels expected until the COVID-19 crisis is over. Although the Commission's facilities were closed during part of our fieldwork, the objectives and scope of our audit were not significantly impacted.

The Commission's response to our finding 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 Commission regarding the results of our review of its response.

HISTORIC   
ST. MARY'S CITY

A MUSEUM OF HISTORY & ARCHAEOLOGY AT  
MARYLAND'S FIRST CAPITAL

February 16, 2021

Gregory A. Hook, CPA  
State of Maryland  
Office of Legislative Audits  
State Office Building, Room 1202  
301 West Preston Street  
Baltimore, Maryland 21201

Dear Mr. Hook:

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 24, 2015 and ending June 30, 2020. Below is the agency's response to the finding of the audit.

**Finding 1**

The Historic St. Mary's City Commission's agreement with its affiliated foundation was not comprehensive, as it did not address policies and procedures for key areas such as purchases, ethics, and investments.

**Response**

The Commission will revise its MOA with its affiliated foundation to:

- a. ensure goods and services purchased on behalf of the Commission by the foundation are procured in a manner consistent with the Commission's Procurement Policy Statement;
- b. establish a conflict of interest policy approved by the State Ethics Commission and require periodic monitoring of foundation board members' compliance with the policy and reporting to the Commission; and
- c. establish an investment policy to ensure funds collected by the foundation are properly collateralized and safeguarded, and that addresses when unrestricted funds should be transferred to the Commission.

The Commission does not dispute the finding and has already communicated with the foundation to begin revision of its MOA to comply with recommendations from the Department of Legislative Audits.



**Regina M. Faden, Ph.D.**  
Executive Director

February 16, 2021

Date



**Douglas Hunter**  
Director of Finance

February 16, 2021

Date

P.O. BOX 39, ST. MARY'S CITY, MARYLAND 20686

# Historic St. Mary's City Commission

## Agency Response Form

### Affiliated Foundation

**Finding 1**  
**The Historic St. Mary's City Commission's agreement with its affiliated foundation was not comprehensive, as it did not address policies and procedures for key areas such as purchases, ethics, and investments.**

We recommend that the Commission revise its MOA with its affiliated foundation to, at the least,

- a. ensure goods and services purchased on behalf of the Commission by the foundation are procured in a manner consistent with the Commission's *Procurement Policy Statement*;
- b. establish a conflict of interest policy approved by the State Ethics Commission and require periodic monitoring of foundation board members' compliance with the policy and reporting to the Commission; and
- c. establish an investment policy to ensure funds collected by the foundation are properly collateralized and safeguarded, and that addresses when unrestricted funds should be transferred to the Commission.

Agency Response			
<b>Analysis</b>			
Please provide additional comments as deemed necessary.			
<b>Recommendation 1a</b>	Agree	<b>Estimated Completion Date:</b>	12/31/2021
Please provide details of corrective action or explain disagreement.	The Commission will work with its attorney from the Office of the Attorney General and the Foundation to revise its MOA to ensure goods and services purchased on behalf of the Commission by the foundation are procured in a manner consistent with the Commission's Procurement Policy Statement.		
<b>Recommendation 1b</b>	Agree	<b>Estimated Completion Date:</b>	12/31/2021
Please provide details of corrective action or explain disagreement.	The Commission will work with its attorney from the Office of the Attorney General and the Foundation to revise its MOA to establish a conflict of interest policy approved by the State Ethics Commission and require periodic monitoring of foundation board members' compliance with the policy and reporting to the Commission		
<b>Recommendation 1c</b>	Agree	<b>Estimated Completion Date:</b>	12/31/2021

## Historic St. Mary's City Commission

### Agency Response Form

<b>Please provide details of corrective action or explain disagreement.</b>	The Commission will work with its attorney from the Office of the Attorney General and the Foundation to revise its MOA to establish an investment policy to ensure funds collected by the foundation are properly collateralized and safeguarded, and that addresses when unrestricted funds should be transferred to the Commission.
---	--

AUDIT TEAM

**Bekana Edossa, CPA, CFE**  
Audit Manager

**Ken H. Johanning, CPA, CFE**  
Senior Auditor

**Thomas J. Kraemer**  
Staff Auditor