

Audit Report

Maryland African American Museum Corporation

November 2021



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

November 17, 2021

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 Maryland African American Museum Corporation (MAAMC) for the period beginning September 6, 2016 and ending March 31, 2021. MAAMC, along with its Board of Directors, oversees the programs of the Reginald F. Lewis Museum of Maryland African American History and Culture.

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 and oversight approvals or two written vendor proposals and, therefore, MAAMC may not have received the best quality and value for the related services. Additionally, MAAMC had not performed a physical inventory of its full collection of artifacts or have an independent control account, as required, and did not assign values to all items for insurance purposes.

Our audit included a review to determine the status of the three findings contained in our preceding MAAMC audit report. We determined that MAAMC satisfactorily addressed one of these findings. The remaining two findings are repeated in this report.

We conducted our audit fieldwork entirely during the period of the State's COVID-19 pandemic health crisis. Also, the crisis had a direct impact on MAAMC's operations for a six-month period. Specifically, a Governor's executive order, effective March 5, 2020, resulted in the MAAMC closing its facilities during the period from March 5, 2020 to September 10, 2020. Consequently, MAAMC's privately raised revenues were reduced during this

period, with a continued reduction from customary revenue levels expected until normal programming can return to original levels. Although the MAAMC's facilities were closed during part of our audit period, the objectives and scope of our audit were not significantly impacted.

MAAMC's response to this audit is included as an appendix to this report. We reviewed the response and noted agreement to our findings and related recommendations, and while there are other aspects of MAAMC's response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve. Additionally, in accordance with our policy, we have edited MAAMC's response to remove the name of a certain system.

We wish to acknowledge the cooperation extended to us during the audit by MAAMC 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 initial "G".

Gregory A. Hook, CPA
Legislative Auditor

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 2020, MAAMC's operating expenditures totaled approximately \$3.8 million, which consisted of \$2 million in general fund expenditures and \$1.8 million in privately funded expenditures.

State Grants

Each year MAAMC enters into a Memorandum of Understanding with the Department of Budget and Management 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 2018 through 2021. For fiscal years 2020 and 2021, the State exempted MAAMC from the 50 percent match due to the COVID-19 pandemic's impact on MAAMC's ability to raise private funds.

Financial Statement Audits

MAAMC engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2016, 2017, 2018, 2019, and 2020. 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 February 9, 2017. As disclosed in Figure 1

below, we determined that MAAMC satisfactorily addressed one of these findings. The remaining two findings are repeated in this report.

**Figure 1
Status of Preceding Findings**

Preceding Finding	Finding Description	Implementation Status
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.	Not repeated
Finding 2	MAAMC did not always comply with its written procurement policy regarding obtaining written proposals and obtaining management approvals.	Repeated (Current Finding 1)
Finding 3	Adequate accountability and controls were not established over MAAMC’s museum collections of art and historical artifacts.	Repeated (Current Finding 2)

Findings and Recommendations

Procurements

Finding 1
The Maryland African American Museum Corporation (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 regarding obtaining written vendor proposals and management approvals. MAAMC is exempt from following State procurement regulations, and has adopted a procurement policy that is designed, in part, to assist the MAAMC’s Board of Directors in exercising its oversight function. According to MAAMC’s records, disbursements totaled approximately \$13.0 million during fiscal years 2018

through 2021. Our test of 10 procurements selected based on materiality¹ with payments totaling \$569,700 disclosed the following:

- MAAMC did not solicit at least two written vendor proposals for two procurements for security and accounting services with associated payments totaling \$279,500. MAAMC only obtained one proposal for each of these procurements and, consequently, MAAMC lacked assurance that the related contracts provided the best quality and value for MAAMC.
- MAAMC did not obtain certain required approvals for five procurements with associated payments totaling \$439,500. For example, MAAMC did not have documentation to support the approval of the Executive Director, the Chairman of the Board, and the Board of Directors for one procurement with payments totaling \$254,500.

MAAMC policy for procurements greater than \$10,000 requires two written proposals and approval from the Executive Director and the Chairman of the Board. The Policy further requires Board of Directors approval for procurements greater than \$50,000. Similar conditions regarding the failure to obtain written proposals and required approvals were commented upon our preceding audit report.

Recommendation 1

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 (repeat), and**
- b. ensure that procurements receive the appropriate documented approvals in accordance with its policy (repeat).**

¹ We selected our test items based on the materiality of total payments to the vendors during our audit period rather than the materiality of the individual procurements.

Museum Collections of Art and Historical Artifacts

Finding 2

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. According to MAAMC's detail records, as of March 2021, MAAMC's collections included 11,701 items. Of this total, 8,900 (76 percent) had not been assigned a value, and the remaining 2,801 items were valued at approximately \$1.6 million for insurance purposes.

- MAAMC did not maintain an independent control record to help establish accountability over the museum collections and to ensure that all museum collection additions and removals were properly recorded.
- MAAMC had not established a policy requiring that items be assigned a value for insurance purposes. According to MAAMC records, 8,900 (76 percent) of the total artifacts were not assigned a value. The assigning of values for artifacts is significant, because we were advised by the State Treasurer's Office, which provides insurance for the artifacts, that MAAMC would not be reimbursed from insurance for the loss of artifacts that were not assigned a value.
- Physical inventories of certain artifacts were not performed as required. Specifically, as of March 2021, there were 4,375 artifacts (including items with a total insured value of \$1.2 million) that had not been inventoried for at least three years. According to MAAMC policy, a physical inventory is to be performed every three years.
- The employee who maintained the detail records of MAAMC's museum collections had physical access to the museum collections, performed the physical inventories, and was responsible for recording any needed adjustments to the records based on the results of physical inventories conducted. These duties should be separated 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 two preceding audit reports and the lack of an established policy for assigning values to items in the collection was commented upon in our preceding audit report. While MAAMC agreed with

the recommendations in our preceding report, MAAMC management informed us that staff turnover prevented the implementation of these recommendations, including the necessary updates to its collection management policy.

Recommendation 2

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 (repeat);**
- c. perform independent physical inventories every three years, as required, and update the detailed records accordingly; and**
- d. ensure that employees who maintain the detail records do not have physical access to the collections (repeat).**

We advised MAAMC how to segregate 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 September 6, 2016 and ending March 31, 2021. 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, and museum collections inventories. We also determined the status of the findings contained in our preceding audit report.

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 September 6, 2016 to March 31, 2021, 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 MAAMC's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We 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. As provided for 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 MAAMC, 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 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. A less significant finding was 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



November 10, 2021

Mr. Gregory A. Hook, CPA
Department of Legislative Services
301 West Preston Street – Room 1202
Baltimore, MD 21201

Dear Mr. Hook,

Attached please find the Museum's response to the draft audit report issued by your office on October 20, 2021.

Please contact me if you need anything further.

Kind regards,



Terri L. Freeman
Executive Director

Maryland African American Museum Corporation

Agency Response Form

Procurements

Finding 1
The Maryland African American Museum Corporation (MAAMC) did not always comply with its written procurement policy regarding obtaining written proposals and obtaining management approvals.

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 (repeat), and
- b. ensure that procurements receive the appropriate documented approvals in accordance with its policy (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	<p>During the audit period MAAMC experienced turnover at the Executive level and in Facilities Management. During this time we renewed our contract with our largest African American vendor. The quote this vendor provided was lower than historical quotes we had received for competitive vendors, assuring MAAMC received the best value while maintaining comparable quality for the services. Because of this vendor's pricing, sometimes competitors are reluctant to bid against them for the Museum.</p> <p>Of the expenses cited in Finding 1b, this one procurement for \$254,500 represents 91% of the amount noted in Finding 1a.</p>		
Recommendation 1a	Agree	Estimated Completion Date:	9/1/21
Please provide details of corrective action or explain disagreement.	<p>MAAMC will obtain competitive bids on future proposals as required by policy, unless at the determination of the Executive Director a Sole Source contract is deemed appropriate, as permitted by the Procurement Procedures.</p>		
Recommendation 1b	Agree	Estimated Completion Date:	9/1/21
Please provide details of corrective action or explain disagreement.	<p>MAAMC will obtain the required approvals for procurements in accordance with the Procurement Procedures.</p>		

Maryland African American Museum Corporation

Agency Response Form

Museum Collections of Art and Historical Artifacts

Finding 2
Adequate accountability and controls were not established over MAAMC’s museum collections of art and historical artifacts.

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 (repeat);
- c. perform independent physical inventories every three years, as required, and update the detailed records accordingly; and
- d. ensure that employees who maintain the detail records do not have physical access to the collections (repeat).

We advised MAAMC how to segregate duties using existing personnel.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	During the period covered by the audit MAAMC did not have enough staff in its Collections & Exhibitions (C&E) department to establish adequate separation of duties. The onset of the pandemic prolonged MAAMC’s opportunity to increase C&E staff.		
Recommendation 2a	Agree	Estimated Completion Date:	9/1/21
Please provide details of corrective action or explain disagreement.	MAAMC has hired additional staff in the Collections and Exhibitions Department. This staffing adds control layers to the oversight of the collection and of our collection management system.		
Recommendation 2b	Agree	Estimated Completion Date:	3/31/22
Please provide details of corrective action or explain disagreement.	MAAMC will develop a policy to ensure that inventory items with potentially material values are valued in a timely manner.		
Recommendation 2c	Agree	Estimated Completion Date:	6/30/22
Please provide details of corrective action or explain disagreement.	MAAMC will hire staff to assist us in meeting our policy. If budget constraints limit staff hires, MAAMC will develop a rotating policy to ensure that all objects are counted in accordance with the policy.		

Maryland African American Museum Corporation

Agency Response Form

Recommendation 2d	Agree	Estimated Completion Date:	6/30/22
Please provide details of corrective action or explain disagreement.	MAAMC has hired additional staff in the Collections and Exhibitions Department. This staffing adds control layers to the oversight of the collection and of our collection management system.		

AUDIT TEAM

Catherine M. Clarke, CPA, CIA, CFE
Audit Manager

Mindy R. Garrett
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