



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

November 3, 2004

Karl S. Aro  
Executive Director

Bruce A. Myers, CPA  
Legislative Auditor

Dr. Edward C. Papenfuse  
State Archivist and Commissioner of Land Patents  
State Archives  
Hall of Records  
350 Rowe Boulevard  
Annapolis, Maryland 21401

Dear Dr. Papenfuse:

Enclosed is a copy of the Office of Legislative Audits' report dated October 27, 2004 covering the audit of the State Archives.

As prescribed by State Government Article, Section 2-1224 of the Annotated Code of Maryland, copies of all audit reports are made available to the public. Accordingly, this report will be available on November 8, 2004.

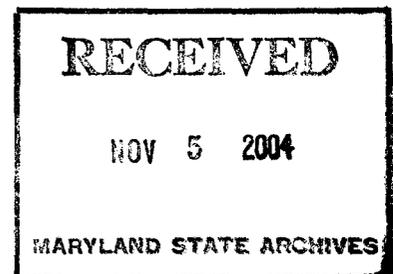
In accordance with the aforementioned law, we will review the actions indicated in your response to the audit report and will advise you of the results.

Sincerely,

Bruce A. Myers, CPA  
Legislative Auditor

BAM/aab  
Enclosure

cc: Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Delegate Charles E. Barkley, Vice Chair, Joint Audit Committee  
Joint Audit Committee Members  
Senator Thomas V. Mike Miller, Jr., President of the Senate  
Delegate Michael E. Busch, Speaker of the House of Delegates  
Senator Ulysses Currie, Chairman, Senate Budget and Taxation Committee  
Delegate Norman H. Conway, Chairman, House Appropriations Committee  
Governor Robert L. Ehrlich, Jr.  
Comptroller William Donald Schaefer  
Treasurer Nancy K. Kopp  
Attorney General J. Joseph Curran, Jr.  
Secretary James C. DiPaula, Jr., Department of Budget and Management  
The Honorable Robert M. Bell, Chairman, Hall of Records Commission  
Mr. Karl S. Aro, Executive Director, Department of Legislative Services



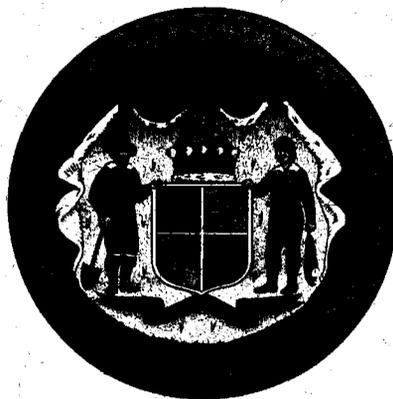
**Audit Report**

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**State Archives**

**October 2004**

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**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

**Bruce A. Myers, CPA**  
Legislative Auditor

October 27, 2004

Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Delegate Charles E. Barkley, Vice-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the State Archives for the period beginning December 1, 2000 and ending February 1, 2004.

Our audit disclosed that the Archives routinely understated project revenues and expenditures related to projects performed for the Judiciary in its annual budget submissions. In addition, the Archives did not maintain adequate cost records for Judiciary related projects.

Our audit also disclosed that the Archivist participated in transactions which may have violated State ethics laws. In addition the Archives' computer network and Internet communications services were not adequately secured. We also noted that proper internal controls were not established over purchasing and disbursements and certain cash receipt procedures.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



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\* Denotes item repeated in full or part from preceding audit report.



# Executive Summary

## Legislative Audit Report on the State Archives October 2004

- **The Archives did not adequately budget or account for funds received from the Judiciary for certain projects. In addition, a formal contract was not executed with the Judiciary for one project. The Archives received approximately \$7.2 million of its \$10.9 million fiscal year 2004 budget through billings to the Judiciary.**

The Archives should ensure that all significant financial activity is included in its annual budget submission. In addition, project cost accounting records should be maintained for significant projects. Further, a formal contract should be executed to support agreements entered into with the Judiciary.

- **The Archivist executed several transactions related to the publication of a book, which may have violated State ethics laws.**

The Archivist should comply with any State Ethics Commission ruling on this matter. In the future, agency transactions in which the Archivist has a personal interest should be reviewed by legal counsel and the Commission to ensure compliance with State laws.

- **Certain contracts were not procured in accordance with State laws and regulations. In addition, proper controls were not established over certain purchasing and disbursement transactions.**

The Archives should ensure that contracts are procured in accordance with State law and regulations. In addition, the Archives should ensure that proper controls are established over purchasing and disbursement transactions.

- **The Archives did not adequately protect its computer network; communication services provided to State agencies were not adequately secured; and physical access to the computer room was not adequately restricted. In addition, the Archives did not have a formal disaster recovery plan.**

The Archives should ensure that its computer network and communication services are adequately secured. In addition, physical access to the computer rooms should be restricted and a formal disaster recovery plan should be established.

- **The Archives did not have adequate controls over certain cash receipts in that the individual responsible for verifying that recorded receipts were deposited also had unrestricted access to certain cash receipts stored in the safe.**

The Archives should ensure that an employee independent of the cash receipts function verify that all recorded collections were deposited.



## **Background Information**

### **Agency Responsibilities**

The State Archives is an independent unit of the State Government within the Executive Department. The functions of the State Archives include the acquisition, management, custody and control of artistic property and records of permanent historical, legal, educational or administrative value. In addition, the Archives is responsible for the compilation, editing and distribution of the *Maryland Manual*.

### **Current Status of Findings From Preceding Audit Report**

We reviewed the current status of the five fiscal/compliance findings included in our preceding audit report dated May 8, 2001. We determined that the Archives satisfactorily addressed two of these findings. The remaining three findings are repeated in this report.



## Findings and Recommendations

### Projects Funded by the Real Property Records Improvement Fund

The Archives performed work for the Judiciary on two projects which involved indexing and digitizing plats and land records stored at the county courthouses. Both the plats on-line (PLATO) and electronic land records on-line imaging (MdLandRec/ELROI) projects were funded by the Judiciary's Real Property Records Improvement Fund. The Fund's primary revenue source is a surcharge collected by the Circuit Courts for the recordation of land/title instruments. The Fund's purpose, as stated by law, is to maintain and modernize equipment at the various Clerk of Circuit Court offices. The Fund is non-lapsing and interest earning and is administered by the Judiciary. According to the Archives records, in fiscal year 2004, the Archives received approximately \$7.2 million of its \$10.9 million budget from the Fund through billings to the Judiciary.

#### **Finding 1**

**The Archives did not adequately budget or account for funds received from the Judiciary for the MdLandRec/ELROI and PLATO projects.**

#### **Analysis**

The Archives did not adequately budget or account for special funds received from the Judiciary's Real Property Records Improvement Fund for the MdLandRec/ELROI and PLATO projects. Our review of the related activities from July 2000 to April 2004 disclosed the following conditions:

- The Archives routinely understated project revenues from the Judiciary and related expenditures in its annual budget submissions for fiscal years 2001 to 2004. Instead, the Archives processed budget amendments totaling approximately \$9.6 million for fiscal years 2001 to 2004 to record most of this activity.
- While signed proposals existed for certain portions of the project, a formal agreement had not been executed with the Judiciary for the PLATO project. The Archives collected \$5.4 million for services performed on the PLATO project from fiscal years 2001 to 2004.
- The Archives did not maintain cost accounting records for the projects, which is an essential control element for major projects. Specifically, the Archives did not maintain project accounting records to compare budgeted

project costs to actual costs and to revenue. Due to the lack of project cost accounting records, the amount of project funds used for the project versus the amount of project funds used for other operations of the Archives is unclear. In this regard, after analyzing available records, the Archives advised us that it had credited excess project funds (that is, a profit) totaling approximately \$190,000 to its Endowment Account in fiscal years 2001 and 2002. This Account was established by law to receive the proceeds of certain public grants and private contributions.

Based on our request, the Archives compiled project cost information for fiscal year 2003 using available records that indicated that project costs (\$1.47 million) incurred for fiscal year 2003 exceeded revenue (\$1.22 million) from the Judiciary, and that excess costs were absorbed by the Archives. However, we were provided conflicting information as to whether \$300,000 of salary costs charged to the project related to employees who actually worked on the project. Furthermore, indirect cost calculations that would allocate overhead costs to these projects were not prepared. Therefore, whether there was a profit or a loss for this project for this fiscal year is unknown.

It is the intent of State law and budget practices that annual budget submissions include all known and anticipated financial activity and that special funds must be attained before related costs are incurred. With respect to the Archives' projects, better accounting practices are needed to help ensure the proper matching of revenues and costs. Such a process would help ensure that project revenues were used for appropriate purposes and help determine whether project revenues were sufficient to pay the related costs.

#### **Recommendation 1**

**We recommend that the Archives disclose all anticipated expenditures and revenues in its annual budget submissions. We also recommend that the Archives disclose all project activity including actual revenues and expenditures and the disposition of any excess funds to the legislative budget committees. Additionally, we recommend that the Archives maintain detailed project cost accounting records which include budgeted costs and all actual costs (both direct and indirect) to help monitor the projects. The Archives should consult with the Department of Budget and Management to ensure that proper budget and accounting practices are established for these activities. Finally, we recommend that the Archives execute formal written contracts for all projects.**

## Potential Conflict of Interest

**Finding 2**  
**The Archivist participated in several transactions related to the publication of a book which may have violated State ethics laws.**

### Analysis

The State Archivist participated in several transactions pertaining to the publication of a book in which he had a direct personal interest as the book's co-author. This book, entitled *The Maryland State Archives Atlas of Historical Maps of Maryland*, represented a reprint and enhancement of an earlier version of the same book. We were advised that the Archivist owned the copyright to the original book. The Maryland State Archives holds an inventory of the book and records revenue related to the sale of the book as special funds revenue. Specifically our review disclosed the following conditions:

- The Archivist solicited grant funding from a foundation to finance the reprinting of the book. The solicitation was done on Maryland State Archives letterhead and was signed by the Archivist as a State Official. The foundation awarded two grants totaling \$100,000 (\$50,000 each) to the Maryland State Archives Fund for the publication of the aforementioned book. One of the grant agreements provided for up to \$50,000 to be repaid, based on the sales of the book which was priced at \$69 or \$100 depending on the cover selected. The publisher of the book was specified in the grant agreement.
- The Archivist entered into a private (executed in the name of the Archivist and the book's other co-author and not the State) publishing contract with the publisher that we were advised was not provided to the Office of the Attorney General for legal review. The agreement assigned exclusive rights to the publisher and also provided for potential royalties to the authors after the sale of 3,000 books (as of May 2004, 2,500 books were printed).
- The Archivist works on a part-time basis for a private organization. This private organization has an affiliation with the publisher.
- Although the Archivist's agreement with the publisher was a private agreement that did not involve the State, agency records indicate that the Archives paid the publisher \$30,000 for set-up costs and an additional \$30,000 for the purchase of approximately 700 books. In addition, the Archives paid another \$20,000 to others for related costs (such as

duplication costs). The aforementioned grants funded these payments; however, the Archives paid these costs without a contract having been executed between the State and the publisher. Additionally, transactions involving the State, including the payment to the publisher, were approved by the Archivist.

Since the Archivist has a personal interest in the publication of this book as the book's co-author, and served as the presiding official for the related State agency, there is, at a minimum, the appearance of a conflict of interest related to this matter. Specifically, State ethics laws prohibit an official or State employee from participating in matters in which they have an interest, as well as in matters which involve a business entity in which the official or State employee is also employed, unless an advisory opinion is obtained from the State Ethics Commission supporting the acceptability of the specific matter. However, we were informed that an advisory opinion was not requested on this matter. In addition, an Executive Order which was signed by the Governor on January 17, 2003 provides, in part, that employees not engage in outside activities that conflict with official government duties and responsibilities.

After we questioned the circumstances surrounding these transactions, the Archivist referred this matter to the State Ethics Commission on June 24, 2004. As of September 13, 2004, the Commission had not concluded on this matter.

#### **Recommendation 2**

**We recommend that any future Archives transactions in which the Archivist has a personal interest be fully disclosed and reviewed by the Office of the Attorney General and the State Ethics Commission to ensure compliance with State laws. We also recommend that, in the future, the Archives only make payments to a contractor when a valid contract exists. Finally, upon receipt of the State Ethics Commission ruling on this matter, we recommend that the Archives take appropriate action.**

#### **Procurements**

##### **Finding 3**

**Certain contracts were not procured in accordance with State laws and regulations.**

##### **Analysis**

The Archives did not always comply with certain procurement requirements specified in State laws and regulations. Our test of procurements awarded during

fiscal years 2003 and 2004 totaling approximately \$3.3 million disclosed that contracts totaling approximately \$3.0 million did not adhere to certain requirements of State law and regulations. Specifically, we identified the following conditions:

- As of January 2004, the Archives had paid \$81,000 for digital printing/scanning equipment and related maintenance services from one vendor without soliciting bids from other vendors, obtaining the approval of the Department of Budget and Management, or publishing the solicitation and the award in the *Maryland Contract Weekly* as required.
- One other scanning contract totaling \$107,200 was awarded to a vendor using the competitive sealed proposal method, without adequate documentation of the basis for this vendor's selection. Additionally, this contract award was not published in the *Maryland Contract Weekly* as required.
- Eight additional contract awards, each exceeding \$25,000 and totaling approximately \$2.8 million, were not published in the *Maryland Contract Weekly* as required.

Procuring goods and services through a competitive process and publishing solicitations and awards helps foster effective broad-based competition. Furthermore, State laws and regulations require that contract solicitations and awards greater than \$25,000 for service and information technology contracts be competitively procured, published in the *Maryland Contract Weekly*, and approved by DBM.

### **Recommendation 3**

**We recommend that the Archives comply with the aforementioned procurement requirements. Specifically, the Archives should obtain the required contract approvals and competitive bids, and publish bid solicitations and awards as required by law. Additionally, the Archives should ensure that its evaluation and selection methodology for contract awards is adequately documented.**

## **Purchases and Disbursements**

### **Finding 4**

**Proper controls were not established over the processing of purchasing and disbursement transactions.**

#### **Analysis**

The Archives did not fully use the security features available on the State's Financial Management Information System (FMIS) to establish proper internal control over purchases and disbursements. For example, one employee could both initiate and approve certain purchasing transactions, which were not subject to independent approvals, and release the related payment to the Office of the Comptroller – General Accounting Division. Consequently, unauthorized transactions could be processed which may not be readily detected. According to the State's accounting records, during fiscal year 2003, the Archives used FMIS to process disbursements totaling approximately \$1.3 million. A similar condition was commented upon in our two preceding audit reports.

#### **Recommendation 4**

**We again recommend that the Archives fully use the available FMIS security features by establishing independent on-line approval requirements for all critical purchasing and disbursement transactions.**

## **Information Systems Security and Control**

### **Background**

The Archives operates an internal network for its headquarters location and two remote sites. The Archives internal network is also connected to external networks including: the Internet, the State Judicial Information Systems; the State Board of Elections; the State Department of Health and Mental Hygiene and networkMaryland.

The Archives also supports servers which host the websites of several State agencies and maintains servers used by many State agencies for Internet communications, including email.

**Finding 5**

**The Archives computer network was not adequately protected from external threats.**

**Analysis**

The Archives computer network was not adequately protected from untrusted networks:

- The Archives did not filter any network traffic from networkMaryland, the State Department of Health and Mental Hygiene or the State Board of Elections. Accordingly, the Archives' network was not protected from any malicious traffic from these three networks.
- Certain critical servers, including those used by many State agencies for Internet communications, were unnecessarily exposed to risks from the Internet because they were not placed in a zone, separate from the internal network, behind the Archives' firewall.
- The Archives did not use intrusion detection system software for critical portions of its network as required by the Department of Budget and Management's *Information Technology Security Policy and Standards*. Intrusion detection system software gathers and analyzes network traffic to identify network security breaches and attacks and alerts network administrators of these situations.

Strong network security relies upon a layered approach to security to prevent, detect and respond to network security breaches and attacks.

**Recommendation 5**

**We made detailed recommendations to the Archives which, if implemented, should provide adequate security for its network connections and architecture. We also recommend that the Archives employ intrusion detection systems in accordance with the provisions of the aforementioned *Information Technology Security Policies and Standards*.**

**Finding 6****Internet communication services supplied to State agencies were not adequately secured.****Analysis**

Internet communication services supplied to State agencies were not adequately secured:

- The Archives operated three servers that work in unison to support Internet communications (including email) for many State agencies. However, these servers each used the same operating system. This increased the risk of disruption of Internet communication services, since an attack targeting a vulnerability associated with this operating system would affect all of these servers. Because of the importance of these Internet communication servers, industry guidance recommends that these servers use different operating systems to help limit the likelihood that attacks could disrupt operations.
- Our test of one of the servers supporting Internet communications disclosed the existence of several significant software vulnerabilities. These software vulnerabilities, which are recognized by a national cooperative research and education organization, exposed the tested server and the backup servers to attacks which could disrupt State agency Internet communications or destroy data.

**Recommendation 6**

**We made detailed recommendations to the Archives which, if implemented, should provide for adequate security over the aforementioned communications servers.**

**Finding 7****Computer operations were not adequately secured.****Analysis**

The Archives computer operations were not adequately secured:

- Physical access to two computer rooms maintained by the Archives which house critical computer equipment was not properly restricted. Although the computer rooms had lockable doors, we noted numerous occasions

where the doors were left open and the computer rooms were unattended. A similar condition was commented upon in our prior audit report.

- Backup copies of files related to the Archives' key computer systems and critical network devices were not stored offsite. In the event of a disaster at the Archives, recovery of data and critical network device configurations would be significantly delayed if not impossible. The Department of Budget and Management's (DBM) *IT Disaster Recovery Guidelines* require that backup media be stored offsite in a secure, environmentally controlled location. Similar conditions were commented upon in our prior audit report.
- The Department did not have an adequate formal disaster recovery plan for recovering from disaster scenarios (for example, a fire). Key requirements in a recovery plan address offsite backup procedures, recovery strategies involving alternate sites, equipment replacement, network connectivity and restoring applications, as well as rules and responsibilities of designated critical personnel and periodic disaster recovery plan testing. In accordance with DBM's *IT Disaster Recovery Guidelines*, a complete information systems disaster recovery plan should, at a minimum, address the aforementioned requirements. Finally, without a formal disaster recovery plan, a disaster could cause significant delays (for an undetermined period of time) in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario.

#### **Recommendation 7**

**We again recommend that the Archives secure its computer room operations by restricting access to the rooms to only authorized personnel. We also again recommend that the Archives store backup copies of critical files and network device configurations at an offsite location. Finally, we recommend that the Archives follow the guidance provided in the aforementioned *IT Disaster Recovery Guidelines*, with respect to development and implementation of a comprehensive information systems disaster recovery plan.**

## Cash Receipts

### **Finding 8**

**The Archives did not establish adequate controls over certain cash receipts.**

#### **Analysis**

Internal controls over certain cash receipts were not adequate. Specifically, the individual responsible for verifying that recorded receipts were deposited also had unrestricted access to mail receipts stored in the safe. Furthermore, this individual also accounted for the pre-numbered receipt forms used to record the receipts and had the capability to record non-cash credit entries in the State's accounting records. Consequently, cash receipts could be misappropriated without detection.

According to the State's accounting records, the Archives cash receipts totaled approximately \$676,000 during fiscal year 2003. The lack of an independent verification of receipts to deposit was commented on in our preceding audit report.

#### **Recommendation 8**

**We again recommend that an employee independent of the cash receipts function verify that all recorded collections were deposited. In addition, we recommend that the employee who accounts for the prenumbered receipt forms and records non-cash credit adjustments on the State's accounting records, not have access to cash. We advised the Archives on accomplishing the necessary separation of duties using existing personnel.**

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

We have audited the State Archives for the period beginning December 1, 2000 and ending February 1, 2004. The audit was conducted in accordance with generally accepted government auditing standards.

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 Archives' financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the current status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Archives' 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 scope was limited with respect to the Archives' cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all Archives cash transactions were accounted for and properly recorded on the related State accounting records as well as the banks' records.

The Archives' 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.

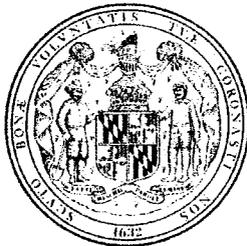
**This report includes conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Archives' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes conditions regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the Archives that did not warrant inclusion in this report.**

**The response from the Archives 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 the Archives regarding the results of our review of its response.**

# MARYLAND STATE ARCHIVES

## APPENDIX

Hon. Robert L. Ehrlich, Jr.  
*Governor*  
Hon. Michael S. Steele  
*Lt. Governor*  
Edward C. Papenfuse, Ph.D.  
*State Archivist and  
Commissioner of Land Patents*  
Timothy D. Baker  
*Deputy State Archivist*  
Matthew P. Lalumia  
*Chairman, Maryland Commission on  
Artistic Property*



*Hall of Records Commission:*  
Hon. Robert M. Bell, *Chair*  
*Chief Judge, Court of Appeals*  
William R. Brody, Ph.D.  
Hon. Mary A. Conroy  
Barbara P. Katz  
William E. Kirwan, Ph.D.  
Hon. Nancy K. Kopp  
Hon. Thomas V. Mike Miller, Jr.  
Christopher B. Nelson  
Earl S. Richardson, Ph.D.  
Boyd K. Rutherford  
Hon. William Donald Schaefer

October 21, 2004

Bruce A. Myers, CPA  
Legislative Auditor  
Department of Legislative Services  
301 W. Preston Street, Room 1202  
Baltimore, MD 21201

Dear Mr. Myers:

This is in response to your letter enclosing the draft audit report of the State Archives for the period beginning December 1, 2000 and ending February 1, 2004.

I respectfully request that the cover letter to the Joint Audit Committee contain a paragraph break before the word "Furthermore, the Archivist." As the paragraph stands, it implies a relationship between the Judiciary projects and the map book. There is no connection between the two and none should be implied. \*

As to the findings, our responses are as follows:

1. The Archives budget for special funds is set by the Department of Budget and Management. The signed proposal for each of the counties for plats.net did constitute contracts specifying amounts to be charged for the services we provided and on which all quarterly billing is based. We agree that one contract would be preferable and have subsequently approached all of our electronic archives projects accordingly. With regard to the sums identified by the auditors as deposited in the Archives endowment, they were derived from the other income producing projects of the Archives and were not associated with our contracts with the Judiciary. We agree that we need better project accounting for income and expenditures and are in the process of refining our accounting to achieve that goal. DBM has just given us approval to fill our existing accounting position which, in part, will be devoted to establishing better project accounting, including more clearly identifying overhead attributions.

\*Auditor's note - requested change was made to report.

2. Because the audit failed to take into account fully the fact that the intellectual property of the map book (copyright) was the sole and exclusive private property of the State Archivist (it was derived from a book I wrote and published without the aid of state funds over 20 years ago on my own time), and that all additional writing and editing of the new edition was also accomplished on my own time (for which there are recorded time sheets available), the audit is in error in alleging that the Archivist had no right to enter into a private contract for the publication of the map book. Because the grant specified the publisher to whom the subsidies were to be paid and because the terms of the grant were clearly met at the amounts specified and for the purposes specified, there was no legal requirement for any additional contract between the State Archives and the publisher. While I believe I have adhered to the spirit and letter of the Executive Order referred to in the audit, it was issued subsequent to all negotiations relating to the map book, and is irrelevant to the audit. Finally, absolutely all monetary benefit from the map book accrues and is accruing to the State which, when all the press run is sold out, will amount to nearly \$60,000, plus all income to be derived from the sale of prints from the images (currently about \$1,000 a month). Neither the Archivist nor any member of his family, nor any private individual has received or will receive any money from a gift that the Archivist and the donor made to the State. Furthermore, it was the Archivist's intellectual property and the existence of the private contract with a reputable press that secured a grant from which not only was the state held harmless, but indeed was the sole beneficiary.
3. All the contracts discussed in the audit were properly competitively bid and carefully documented. What we failed to do was to publish the results in the *Maryland Contract Weekly*. We have taken corrective action to see that omission does not happen again.
4. We concur with the recommendations and are implementing them to the best of our ability with available funds.
- 5-7. The audit occurred at the time we at last were beginning to have resources to implement the very recommendations made by the auditor. We appreciate the care with which he reviewed where we were and what we were about to do. All of the recommendations are ones which we are currently evaluating and, where appropriate, putting into effect, with the procurement assistance of DBM and with the approval, where required, of the Board of Public Works.

Bruce A. Myers, CPA  
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8. We concur with the recommendations and are implementing them to the best of our ability with available funds.

Sincerely yours,



Edward C. Papenfuse  
State Archivist and  
Commissioner of Land Patents

ECP:kb

cc: Hall of Records Commission

**AUDIT TEAM**

**Phyllis M. Clancy, CPA**  
Audit Manager

**Stephen P. Jersey, CPA, CISA**  
Information Systems Audit Manager

**Amando J. Virata, CPA**  
Senior Auditor

**R. Brendan Coffey, CPA**  
Information Systems Senior Auditor

**Albert E. Schmidt, CPA**  
Information Systems Auditor

# MARYLAND STATE ARCHIVES

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Hon. Thomas V. Mike Miller, Jr.  
Christopher B. Nelson  
Earl S. Richardson, Ph.D.  
Boyd K. Rutherford  
Hon. William Donald Schaefer

February 9, 2005

The Honorable Charles E. Barkley  
Chairman  
Joint Audit Committee  
Lowe House Office Building, Room 222  
84 College Ave.  
Annapolis, MD 21401 – 1991

Dear Chairman Barkley:

Thank you for the opportunity to clarify and expand on our responses to our Legislative Audit findings items 4, 7 and 8 as requested at our hearing last Thursday.

**Finding 4.** The Archives had not established proper internal controls over the processing of purchasing and disbursement transactions.

Approval for direct voucher payment transactions is evidenced by signatures authorizing payment on the invoice, and the actual transmittal release in FMIS by an individual other than the one initiating the transaction.

Regarding the issue of having two employees that had the capability to create, process and approve purchase requisitions and purchase orders without independent approvals in FMIS, the security profiles for our accounting staff have been changed such that this is no longer the case. Now, there is only one individual who can create a purchase requisition or a purchase order. This individual cannot approve either a purchase requisition or a purchase order. In addition, there is now only one individual that can approve purchase requisitions and purchase orders (the Director of Financial Administration). Currently, the position of Deputy Director of Financial Administration is vacant. When that position is filled, that individual will have the ability to approve requisitions and purchase orders, but will not be able to create them.

**Finding 7.** The Archives computer systems backup tapes were not stored off-site.

To satisfy this finding the Archives revisited and required implementation of our existing policy that all backup tapes be sent to an off-site storage facility on the next courier run, (within one business day), following the creation of the backup tapes.

**Finding 8.** The Archives did not establish adequate controls over cash receipts.

To satisfy the auditor's concerns, the Archives immediately began a procedure in which all daily mail receipts are placed in a sealed bag. This effectively eliminated access to cash by the individual cited in the finding.

The Honorable Charles E. Barkley

February 9, 2005

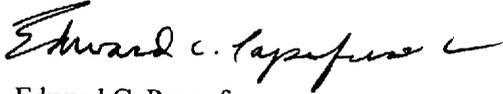
Page 2 of 2

In addition and more specifically, segregation of duties have been established where separate and distinct roles are performed by different employees:

1. Mail receipts are handled by an administrative staff person who makes multiple copies of the calculator tape and places the receipts in a sealed bank bag.
2. Another individual accounts for the daily cash receipts and deposits both the cash receipts and the mail receipts in the bank.
3. A third person accounts for the pre-numbered receipt forms.
4. A fourth person reconciles the bank statement, the Comptroller report and the deposit information. This individual has no access to cash.

I trust that this information satisfactorily addresses the repeat recommendations made by the auditor. Please let me know if any additional information is needed.

Sincerely,



Edward C. Papenfuss  
State Archivist and  
Commissioner of Land Patents

Cc: Members, Public Safety and Administration Subcommittee  
Bruce Myers  
Dave Ryker  
Jim Stoops

## Budget Hearing Follow-Up

**Subcommittee:** PSA

**Budget Analyst:** Jim Stoops

**Hearing Date:** 2/3/2005

**Committee Analyst:** Elizabeth H. Moss

**Agency:** Archives

**Agency Contact:** Timothy Baker

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- Within **two weeks** of the budget hearing and no later than **March 9**, 10 copies of all responses should be submitted to: House Appropriations Committee  
Attn: Michelle Rencher  
House Office Building, Room 130  
Annapolis, Maryland 21401  
Please submit all response items for each agency at the same time.
- An asterisk in the first column indicates the item should be included as a discussion item at the decision meeting.

<b>Request by</b>	<b>Analyst or Agency Resp.</b>	<b>Issue/Request</b>
Barkley	Archives	Provide further information in a written response to audit report findings

The Honorable Charles E. Barkley  
Chairman, Joint Audit Committee  
Lowe House Office Building, Room 222  
84 College Avenue  
Annapolis, MD 21401-1991

The Honorable Joan Cadden  
House of Delegates  
Lowe House Office Building, Room 410B  
84 College Avenue  
Annapolis, MD 21401-1991

The Honorable Gail H. Bates  
House of Delegates  
Lowe House Office Building, Room 306  
84 College Avenue  
Annapolis, MD 21401-1991

The Honorable Murray D. Levy  
House of Delegates  
Lowe House Office Building, Room 216  
84 College Avenue  
Annapolis, MD 21401-1991

The Honorable Doyle L. Niemann  
House of Delegates  
Lowe House Office Building, Room 203  
84 College Avenue  
Annapolis, MD 21401-1991

The Honorable Jeffrey A. Paige  
House of Delegates  
Lowe House Office Building, Room 315C  
84 College Avenue  
Annapolis, MD 21401-1991

Elizabeth H. Moss, Staff  
Public Safety and Administration Subcommittee  
Lowe House Office Building, Room 131  
84 College Avenue  
Annapolis, MD 21401-1991

Bruce A. Myers, CPA  
Legislative Auditor  
Department of Legislative Services  
301 West Preston Street, Room 1202  
Baltimore, MD 21201

Dave Ryker, Budget Analyst  
Department of Budget and Management  
Office of Budget Analysis  
45 Calvert Street, 2nd Floor  
Annapolis, MD 21401-1907

Jim Stoops, Policy Analyst  
Maryland General Assembly  
Office of Policy Analysis  
Legislative Services Building, 90 State Circle  
Annapolis, MD 21401

*Note: 10 copies mailed to Michelle Rencher on 2/14/05*



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

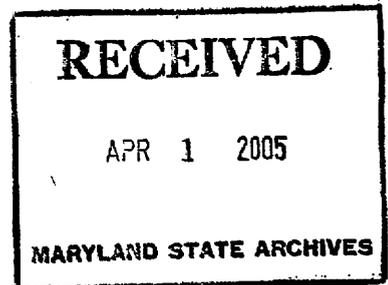
March 30, 2005

**Karl S. Aro**  
Executive Director

**Bruce A. Myers, CPA**  
Legislative Auditor

Re: Audit of State Archives  
Report Date: October 27, 2004  
Period of Audit: March 2, 2001 to October 31, 2003

Dr. Edward C. Papenfuse  
State Archivist and Commissioner of Land Patents  
State Archives  
Hall of Records  
350 Rowe Boulevard  
Annapolis, Maryland 21401



Dear Dr. Papenfuse:

Our Office has reviewed your response to the above cited audit report and the additional clarifications provided in your February 9, 2005 letter to Delegate Charles E. Barkley. The actions indicated in the responses address the recommendations contained in the report, except for the following:

**Finding 1:**

The audit recommended, in part, that the Archives disclose all anticipated expenditures and revenues in its annual budget submissions. The audit also recommended that the Archives disclose all project activity including actual revenues and expenditures and the disposition of any excess funds to the legislative budget committees, and that the Archives should consult with the Department of Budget and Management (DBM) to ensure that proper budget and accounting practices are established for these activities.

Your response did not address these specific recommendations other than to indicate that the Archives' budget for special funds is set by DBM. However, during the audit, we were advised by a representative of DBM that Archives had always been requested to include all special fund revenue in their budget submission.

Please advise if the Archives intends to comply with the aforementioned audit recommendations. Specifically, please advise if all anticipated expenditures and revenues will be disclosed in Archives' annual budget submissions, if all project activity including actual revenues and expenditures and the disposition of any excess funds will be disclosed to the legislative budget committees, and if DBM will be consulted to ensure that proper budget and accounting practices are established for these activities.

**Finding 2:**

The audit recommended that any future Archives transactions in which the Archivist has a personal interest be fully disclosed and reviewed by the Office of the Attorney General and the State Ethics Commission to ensure compliance with State laws. The audit also recommended that, in the future, the Archives only make payments to a contractor when a valid contract exists, and that, upon receipt of the State Ethics Commission ruling on this matter, the Archives take appropriate action.

While your response did not address these recommendations, subsequent to the audit you forwarded a copy of the State Ethics Commission's letter regarding this matter to our Office. Based on the Commission's review, we consider this matter to be closed. We trust that, in accordance with the Commission's letter, the Archives' counsel will review all documents related to future projects and that the Archives will contact the Commission for advice regarding possible ethics implications of any future projects.

**Finding 3:**

The audit specifically recommended that the Archives obtain required contract approvals and competitive bids, and publish bid solicitations and awards as required by law. Additionally, the audit recommended that the Archives ensure that its evaluation and selection methodology for contract awards is adequately documented. Your response stated that all contracts discussed in the audit were properly competitively bid and carefully documented and that actions have been taken to ensure that the failure to publish results in the *Maryland Contract Weekly* does not happen again.

While the majority of cited contracts in our report dealt only with the failure to publish contract awards, we did note one contract that was not bid and was not approved by DBM as required and one additional contract which was awarded without adequate documentation of the basis for the vendor's selection. Please advise if Archives will obtain required contract approvals and competitive bids, and ensure that the evaluation and selection methodology for contract awards is adequately documented for all contracts.

**Findings 5 – 7:**

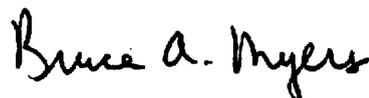
During the audit a number of recommendations were made to improve information systems security and control. The above cited audit report contained both general recommendations (which referred to the detailed recommendations that were made during the course of the audit) and a number of specific recommendations. Your response stated that the recommendations were being evaluated and, where appropriate, were being put into effect. Additionally, your February 9, 2005 letter indicated that a procedure had been established to ensure backup tapes are stored off-site.

March 30, 2005

Please provide us with additional specifics regarding the implementation of the audit recommendations. Specifically, please advise what steps have been taken to ensure the Archives' computer network is adequately protected from external threats (for example, the use of intrusion detection systems), and to ensure that the Archives' internet communication services are adequately secured. Also, please advise if the Archives has adequately restricted access to its computer room operations and if a comprehensive information systems disaster recovery plan will be developed in accordance with DBM's *IT Disaster Recovery Guidelines*.

Please respond to the above-noted items no later than April 20, 2005. Please provide both a paper and an electronic copy of your reply by this date. The electronic reply can be submitted in either Microsoft Word or WordPerfect formats and should be sent to [followup@ola.state.md.us](mailto:followup@ola.state.md.us).

Sincerely,



Bruce A. Myers, CPA  
Legislative Auditor

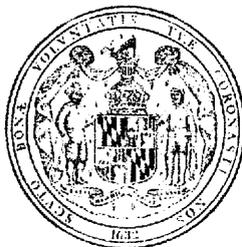
BAM/lcy

cc: Delegate Charles E. Barkley, Co-Chair, Joint Audit Committee  
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Joint Audit Committee Members  
Senator Thomas V. Mike Miller, Jr., President of the Senate  
Delegate Michael E. Busch, Speaker of the House of Delegates  
Senator Ulysses Currie, Chairman, Senate Budget and Taxation Committee  
Delegate Norman H. Conway, Chairman, House Appropriations Committee  
Governor Robert L. Ehrlich, Jr.  
Comptroller William Donald Schaefer  
Treasurer Nancy K. Kopp  
Attorney General J. Joseph Curran, Jr.  
Secretary James C. DiPaula, Jr., Department of Budget and Management  
The Honorable Robert M. Bell, Chairman, Hall of Records Commission  
Mr. Karl S. Aro, Executive Director, Department of Legislative Services

# MARYLAND STATE ARCHIVES

*Ed.*

Hon. Robert L. Ehrlich, Jr.  
Governor  
Hon. Michael S. Steele  
Lt. Governor  
Edward C. Papenfuse, Ph.D.  
State Archivist and  
Commissioner of Land Patents  
Timothy D. Baker  
Deputy State Archivist  
Matthew P. Lalumia  
Chairman, Maryland Commission on  
Artistic Property



Hall of Records Commission:  
Hon. Robert M. Bell, Chair  
Chief Judge, Court of Appeals  
William R. Brody, Ph.D.  
Hon. Mary A. Conroy  
Barbara P. Katz  
William E. Kirwan, Ph.D.  
Hon. Nancy K. Kopp  
Hon. Thomas V. Mike Miller, Jr.  
Christopher B. Nelson  
Earl S. Richardson, Ph.D.  
Boyd K. Rutherford  
Hon. William Donald Schaefer

April 14, 2005

Bruce A. Myers  
Office of Legislative Audits  
Maryland General Assembly  
301 West Preston Street, Room 1202  
Baltimore, MD 21201

Dear Mr. Myers:

With respect to your letter dated March 30, 2005, seeking responses to specific audit findings, the Maryland State Archives wishes to advise that:

**Finding 1:**

All anticipated expenditures and revenues will be disclosed in the Archives' annual budget submission. In addition, all Judiciary project activity, including actual revenues and expenditures, and the disposition of any excess funds, will be disclosed to the legislative budget committees. Project cost accounting records will include budgeted costs and actual costs (both direct and indirect) to help monitor the projects. Furthermore, the Department of Budget and Management will be consulted to ensure that proper budget and accounting practices are established for these activities.

**Finding 2:**

The Archives' counsel will review all contracts involving the Archives and the State Archivist, even in those cases, such as the one initially in question and now closed, where the Archivist has concluded that there is no conflict of interest.

**Finding 3:**

The Archives will obtain the required contract approvals and competitive bids, and publish bid solicitations and awards as required by law. In addition, the Archives will ensure that its evaluation and selection methodology for contract awards is adequately documented.

**Finding 5 - 7:**

The Archives has installed 2 Cisco Catalyst 6509 switches with built in firewall service modules that provide redundant firewall protection for our trusted Local Area Networks and the ability to communicate with the Internet and other agencies with different DMZ zones. In addition, these switches are capable of being configured with an additional appliance that also provides an Intrusion

Detection System module. The Archives is in the process of evaluating this solution and will initiate a procurement before the close of this fiscal year.

The Archives is obtaining, through the Department of General Services, security clearances for all contractors working in the computer room. In addition, all contractors must sign in at the security desk and are then escorted by Information Technology staff to the assigned work area where they are required to sign in again. Information Technology personnel remain with the contractors at all times while work is being performed. Codes for the locks on computer room doors are changed quarterly. The code is only distributed to Information Technology staff on a designated control list. Finally, security cameras will be installed in the computer rooms to provide additional monitoring.

The Director of Information Systems Management is working on the Archives' Disaster Recovery plan in accordance with the Department of Budget and Management's Disaster Recovery Guidelines. The Archives' plan should be implemented by the end of the current fiscal year.

Sincerely,



Van Lewis  
Director of Fiscal Administration

VL:kb

cc: Delegate Charles E. Barkley, Co-Chair, Joint Audit Committee  
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Joint Audit Committee Members  
Senator Thomas V. Mike Miller, Jr., President of the Senate  
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Dr. Edward C. Papenfuse, State Archivist  
Timothy Baker, Deputy State Archivist