

Audit Report

University System of Maryland Frostburg State University

September 2024



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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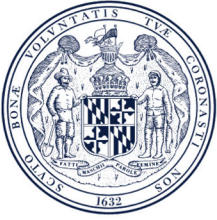
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

September 11, 2024

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 University System of Maryland (USM) – Frostburg State University (FSU) for the period beginning August 26, 2019 and ending July 15, 2023. FSU is a comprehensive public institution of USM offering an array of undergraduate and graduate degrees.

Our audit disclosed that FSU did not exercise adequate due diligence or comply with certain procurement policies and procedures when it acquired a new financial aid system. FSU subsequently determined it was not cost effective to continue using the system and opted to discontinue the contract resulting in the loss of all \$680,000 expended on the system.

In addition, FSU did not competitively procure student mental health services initially procured without competition in October 2019 as an emergency procurement, and then extended for multiple years using questionable sole source justifications. Furthermore, FSU did not obtain required Board of Public Works approval when contract costs for those services exceeded \$1 million. FSU also did not verify that its use of contracts procured by other entities was in the best interest of FSU as required by USM Board of Regents policies and procedures and did not verify that rates charged were consistent with the related contracts.

We also noted that FSU did not ensure the accuracy of all institutional aid awards, and identified incorrect awards totaling approximately \$64,000. In addition, we found insufficient internal controls over student residency determinations, adjustments to employee leave balances, other earnings transactions, and cash receipts.

Finally, our audit included a review to determine the status of the five findings contained in our preceding audit report. We determined that FSU satisfactorily addressed four findings. The remaining finding is repeated in this report.

The USM Office's response to this audit, on behalf of FSU, is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while FSU generally agrees with the findings and recommendations, we identified certain instances in which statements in the response conflict with or disagree with the report findings and recommendations. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included "auditor's comments" within USM's response to explain our position. We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with FSU.

We wish to acknowledge the cooperation extended to us during the audit by FSU. We also wish to acknowledge USM's and FSU's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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Background Information

Agency Responsibilities

Frostburg State University (FSU) is a comprehensive public institution of the University System of Maryland (USM) and operates under the jurisdiction of the System's Board of Regents. FSU offers an array of undergraduate and graduate degrees with an emphasis on arts, humanities, business, applied technologies, education, environmental sciences, human services, and social and behavioral sciences.

During our audit period, student enrollment dropped significantly from 5,178 students (4,429 undergraduate and 749 graduate) in the Fall 2019 semester to 4,075 students (3,344 undergraduate and 731 graduate) in the fall 2023 semester. According to the Department of Legislative Services' Analysis of the Fiscal Year 2024 Maryland Executive Budget, FSU management believes that enrollment has been impacted by various factors, including changes in student preferences to attend institutions closer to their home. FSU also pointed to a delay in awarding financial aid it experienced in 2022 as a result of certain system implementation problems, which we further address in Finding 1.

FSU's budget is funded by unrestricted revenues, such as tuition and fees and a State general fund appropriation, as well as restricted revenues, such as federal grants and contracts. According to the State's accounting records, FSU's revenues for fiscal year 2023 totaled approximately \$121.9 million, including a State general fund appropriation of approximately \$51.7 million (see Figure 1 on the following page).

Figure 1
FSU Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2023		
	Positions	Percent
Filled	594	86.3%
Vacant	94	13.7%
Total	688	
Fiscal Year 2023 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$ 66,406,397	54.5%
Technical and Special Fees	9,125,006	7.5%
Operating Expenses	46,364,046	38.0%
Total	\$121,895,449	
Fiscal Year 2023 Funding Sources		
	Funding	Percent
<u>Unrestricted</u>		
General Fund	\$ 51,724,885	42.4%
Tuition and Fees	31,378,293	25.7%
Other University Revenues ¹	26,259,591	21.6%
	109,362,769	89.7%
<u>Restricted</u>		
Federal Grants and Contracts	8,641,817	7.1%
Other Gifts, Grants, and Contracts	3,890,863	3.2%
	12,532,680	10.3%
Total	\$121,895,449	

Source: State financial records and FSU personnel records

¹ Includes revenues from Auxiliary Services (\$19.3M) and the Higher Education Investment Fund (\$3.3M)

Status of Findings from Preceding Audit Report

Our audit included a review to determine the status of the five findings contained in our preceding audit report on FSU dated August 5, 2020. As disclosed in Figure 2, we determined that FSU satisfactorily addressed four of these five findings. The remaining finding is repeated in this report.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Frostburg State University (FSU) lacked documentation of its compliance with University System of Maryland (USM) Board of Regents procurement policies and procedures regarding the use of contracts established by other organizations, institutions, or agencies. In addition, FSU did not verify that the prices charged were in accordance with the related established contracts.	Repeated (Current Finding 3)
Finding 2	FSU did not have a formal agreement governing construction management services being provided by another State university and did not receive sufficient documentation to monitor these services and ensure the propriety of amounts invoiced by the university.	Not Repeated
Finding 3	FSU did not ensure that user access capabilities on its financial management systems were adequately restricted resulting in employees with unnecessary or inappropriate system capabilities.	Not Repeated
Finding 4	FSU's procedures for logging and monitoring critical database security and audit events were not adequate.	Not Repeated
Finding 5	FSU did not independently verify that all bookstore collections were deposited and related refunds were proper.	Not Repeated

Findings and Recommendations

Contracts and Disbursements

Background

Frostburg State University (FSU) is required to follow the University System of Maryland (USM) Board of Regents (BOR) procurement policies and procedures when procuring goods and services. We judgmentally selected and reviewed the procurement of seven contracts collectively valued at \$9.8 million. We also reviewed FSU's contract monitoring and disbursements processes for these seven and two additional contracts, all of which had expenditures totaling \$24.4 million during our audit period. Figure 3 shows the nine contracts that we reviewed.

Figure 3
Summary of Contracts Reviewed

Item	Description of Goods or Services	Type of Procurement ²	Total Contract Value	Total Payments During Audit Period ³
1	Student Financial Aid System Implementation Services	Maryland Education Enterprise Consortium (MEEC) Contract	\$700,840	\$523,619
2	Roof Replacement	Intergovernmental Cooperative Purchasing Agreement (ICPA)	3,259,069	1,741,201
3	Dining Services	Competitive Sealed Proposal	62,000,000	18,342,572
4	Drywall Remediation	ICPA	705,006	0 ⁴
5	HVAC Replacement	ICPA	2,917,590	992,993
6	Bleacher Replacement	ICPA	694,936	694,936
7	Psychological Support Services	Emergency	1,737,964	1,733,964
8	Electronic Database Subscriptions	Statewide Consortium	213,958	213,958
9	Student Financial Aid System	Sole Source	268,821	156,812
Total			\$72,498,184	\$24,400,055
Total Procurements Tested²			\$9,803,248	

Source: FSU Procurement Records

² Item numbers 3 and 6 were procured before our audit period and the procurement of these items was not reviewed.

³ We examined FSU's monitoring of and selected disbursements for all nine contracts.

⁴ Although this contract did not have payments during our audit period, we tested one payment totaling approximately \$200,000 that was made immediately after the end of our audit period.

Finding 1

FSU did not exercise adequate due diligence or comply with certain procurement policies when it procured a new financial aid system. FSU subsequently determined it was not cost effective to continue using the system and opted to discontinue the contract resulting in the loss of all \$680,000 expended on the system.

Analysis

FSU did not exercise adequate due diligence or comply with certain procurement policies and procedures when it acquired a new financial aid system, which FSU advised us it discontinued using because of ongoing system and operational problems. In October 2021, FSU procured system software and related licensing for a new student financial aid system for approximately \$269,000 through a sole source procurement. In addition, FSU contracted with another vendor to implement the system for \$701,000 (after change orders) under a Maryland Enterprise Education Consortium (MEEC) contract. As of July 2023, FSU had expended approximately \$680,000, or 70 percent of the initial expected cost of implementation. Our review disclosed the following conditions:

- FSU did not prepare a written sole source justification for the system software and related licensing as required by BOR policy. FSU also did not conduct a formal analysis to determine if the system would meet the needs of FSU. Rather, FSU contacted another State university using the system which provided FSU with a favorable review.
- FSU selected the implementation vendor without preparing and submitting a detailed task order request for proposal to 16 other potential vendors available under the MEEC contract. Although not a requirement when using a MEEC contract, taking steps to solicit proposals from multiple vendors when available is a common best practice.

The lack of due diligence in the selection of the software and related vendors is significant because FSU discontinued using the system. Specifically, FSU activated the system for the Fall 2022 semester, but advised us that it reimplemented its prior system beginning with the Summer 2024 semester because of unremedied issues with the new system and because the new system did not meet its needs.

The contract did not provide for recovery of liquidated damages by FSU if the vendor was found to be noncompliant in any manner. Regardless, FSU advised that its legal counsel concluded there is no recourse or liquidated damages to pursue from the software vendor. According to its legal counsel, the vendor

recommended FSU change certain of its business practices to align with the vendor's system (related to the award year for financial aid). However, FSU determined that this change would have caused significant complications for one of FSU's programs, so it asked the vendor to modify its system to accommodate FSU's existing practice. This decision significantly impacted the project's workload and timeline and FSU encountered unique challenges not faced by another State university using the system. FSU ultimately decided it was more economical to return to its prior system than continuing to pay to adjust the new financial aid system. As a result, FSU may not be able to recover any of the approximately \$680,000 expended under both contracts.

Recommendation 1

We recommend that FSU

- a. comply with BOR policies and procedures and exercise sufficient due diligence when procuring future contracts, and**
- b. include a provision for liquidated damages in future contracts.**

Finding 2

FSU did not competitively procure student mental health services initially obtained without competition in October 2019 through an emergency procurement, and then extended multiple years using questionable sole source justifications. FSU also did not obtain required Board of Public Works (BPW) approval when contract costs exceeded \$1 million or ensure rates paid were consistent with the contract.

Analysis

FSU continued to use the same vendor for student mental health services initially obtained without competition through an emergency procurement in October 2019 and without obtaining required BPW approval when contract costs exceeded \$1 million. In addition, FSU did not ensure that rates paid to the vendor agreed with the contract rates, resulting in overpayments of at least \$9,600.

The initial contract, which included annual budgeted costs of approximately \$640,000, did not specify an end date, but indicated that the contract could be extended by mutual agreement. FSU has continued to use the vendor for these services by extending the contract multiple times, claiming that the vendor is the sole source for these services. The extensions established various end dates, the most recent being September 2024, five years after the initial emergency procurement. During our audit period, the vendor was paid a total of \$1.7 million.

The initial emergency justification stated that FSU lacked staff to provide required counseling due to resignations. Subsequent sole source justifications noted that FSU's location limited the number of mental health providers available, and that the current vendor was able to meet FSU's staffing requirements. However, our review disclosed that the written justification for the initial emergency contract and subsequent sole source justifications were not signed until we requested them in August 2023.

Furthermore, we question the validity of the continuous use of sole source given the nature of the services and no apparent attempt by FSU to competitively procure the services since inception of the contract. Our online search identified other vendors who could potentially provide similar services. USM procurement policies and procedures provide that a sole source procurement should only be used when a determination is made that only one source will satisfy the requirements and/or circumstances present, and that action should be taken when possible to avoid the need to continue to procure the same contract without competition. The policies and procedures also require a written determination as to why use of the sole source procurement method was appropriate.

Our review further disclosed that FSU did not obtain BPW approval when total contract costs exceeded \$1 million as required by USM policy, and did not ensure rates invoiced and paid to the vendor were consistent with the contract. We reviewed five vendor invoices paid between May and September 2023 totaling approximately \$262,000 and found that certain rates were not consistent with the contract resulting in overpayments of approximately \$9,600⁵. Specifically, an addendum to the contract was signed in August of 2023 indicating new rates effective October of 2023, the start of the next contract year. However, our review disclosed that FSU paid the new increased rates prior to October. FSU was not aware of the improper rates paid until we brought the matter to its attention.

Recommendation 2

We recommend that FSU

- a. use a competitive procurement process for the aforementioned student mental health services;**
- b. timely prepare and document required justifications when competitive procurement is not used;**
- c. obtain required BPW approval when contract costs exceed \$1 million;**
- and**

⁵ We initially selected two recent payments made as of the time of our review. Based on discrepancies noted, we reviewed three additional payments made that were likely to show the same problems based on the related timeframe.

- d. take steps to identify and recover all overpayments made for the aforementioned services, including those noted above.

Finding 3

FSU did not verify that its use of contracts procured by other entities was in the best interest of FSU as required by BOR procurement policies and procedures. FSU also did not verify that rates charged were consistent with the related contracts.

Analysis

FSU did not verify that its use of contracts procured by other entities was in the best interest of FSU as required by BOR procurement policies and procedures. In addition, FSU did not verify that rates charged were consistent with the related contracts. Specifically, our review of four contracts totaling \$7.6 million entered into by FSU utilizing contracts procured by other entities (Intergovernmental Cooperative Purchasing Agreement (ICPA) and MEEC contracts) disclosed the following conditions:

- FSU did not ensure that the use of these contracts in lieu of competitively procuring the related goods and services itself was in the best interest of FSU. FSU also did not ensure that the original contracts procured by those entities had been awarded using an appropriate procurement process.

A similar condition was noted in our preceding audit report. In response to that report, FSU disagreed that it was required to document its verification that the contracts were in the best interest of the institution. We continue to believe that FSU should perform the verification and document the related results.

- FSU did not verify that the specific contract rates it was charged were consistent with the original contract for three of the four ICPA and MEEC contracts totaling \$6.9 million. This condition was noted in our preceding audit report. In response to that report, FSU indicated that effective September 2020, it would better document its verification that quotes agreed to contract pricing.

BOR procurement policies and procedures during the audit period stated that USM institutions may use contracts established by other organizations, institutions, or agencies provided that use of the contract is in the best interest of the institution, and the established contract was awarded after a proper

procurement process⁶. At least one other USM institution we examined had documentation on file of other ICPA contracts and pricing it researched, as well as evidence that the ICPA used was competitively bid.

Recommendation 3

We recommend that FSU document its compliance with USM policies and verify that

- a. its use of contracts established by other organizations, institutions, or agencies is in the best interest of FSU, and that the contracts were properly procured (repeat); and**
- b. amounts invoiced by vendors are consistent with established contract rates (repeat).**

Student Accounts Receivable

Finding 4

FSU had not established sufficient controls over student residency determinations and certain adjustments recorded in student accounts.

Analysis

FSU had not established sufficient controls over student residency determinations and certain adjustments recorded in student accounts. Accurate student residency determinations are important because of the significant differences between in-state, regional, and out-of-state student tuition rates. For example, the undergraduate tuition rate for Maryland residents was \$7,110 for the Fall 2023 and Spring 2024 semesters, whereas the undergraduate tuition rate for out-of-state students was \$22,292, and \$16,446 for out-of-state regional students⁷.

- No reviews were performed of the initial residency determinations made for graduate students and initial determinations for undergraduate students were performed by an employee who was not independent because they could also change a student's residency status. In addition, subsequent changes to a student's residency status were reviewed for propriety only if initiated by the Registrar's Office, which only accounted for 261 of the 1,357 changes (or 19.2 percent) made during our audit period.
- Output reports used to verify the propriety of non-cash credits were generated by one of the two employees responsible for posting non-cash

⁶ Subsequent to our audit period, we were advised by USM that the BOR revised its procurement policies and procedures at its June 14, 2024 meeting.

⁷ Students who are not residents of Maryland but live within 120 miles of FSU.

credits. As a result, errors or other discrepancies could occur without detection. According to FSU's records, non-cash credits totaling approximately \$3.5 million were recorded during fiscal year 2023. FSU was unable to generate an output report that readily identified transactions processed by this employee. As a result, we were unable to test such transactions.

Recommendation 4

We recommend that FSU

- a. ensure that independent supervisory reviews of all initial student residency determinations and residency status changes recorded in the student accounts receivable system are conducted and documented, and**
- b. ensure that an independent verification of non-cash credit adjustments is performed utilizing a report generated by an independent employee.**

Student Financial Aid

Finding 5

FSU did not ensure that all institutional aid awards, which were based in part on the student's residency status, reflected the student's actual residency status at the time of award. We identified incorrect awards totaling approximately \$64,000.

Analysis

FSU did not ensure that all institutional aid awards, which were based in part on the student's residency status, reflected the student's actual residency status at the time of award. Certain institutional need-based grants are only available to in-state students and the amount awarded for other grants is impacted by the student's residency status. For example, for one type of aid, qualifying out-of-state students received an award ranging between \$5,000 and \$10,000, depending on grade point average and test scores; while qualifying in-State students received award amounts ranging between \$1,000 and \$5,000. During fiscal year 2023, FSU awarded institutional aid totaling approximately \$5.3 million to 1,664 students.

Our review disclosed that FSU did not always verify the residency status when making awards to ensure the student was eligible for the award and the proper amount of aid was awarded. Our test of 16 students⁸ who received institutional

⁸ Our selection was made from higher risk awards, including cases in which the award amount differed from the expected award amount based on the student's residency status.

aid based on either merit or need totaling \$100,650, disclosed that 6 students received an award amount based on regional or out-of-state residency status even though they were classified as in-state students at the time of the award. In addition, 7 other students received an institutional aid award designated only for in-state students even though they were classified as regional or out-of-state students at the time of the award.

We calculated that improper awards totaling \$54,650 were made to these students. These amounts were either refunded to the students or remained in the student accounts to cover other potential costs. Furthermore, one student was awarded \$9,000 less than they should have been because their award amount was based on in-state residency status even though they were classified as a regional student at the time of the award. FSU was not aware of these errors until we brought them to its attention.

Recommendation 5

We recommend that FSU

- a. ensure that all institutional aid award amounts reflect the correct student residency status; and**
- b. review the aid awarded to students, including those noted above, and take appropriate corrective action.**

Payroll

Finding 6

FSU did not ensure that all critical payroll related transactions, including adjustments to employee leave balances and other earnings transactions, were independently reviewed for propriety.

Analysis

FSU did not ensure that all critical payroll transactions, including adjustments to employee leave balances and other earnings transactions such as leave payouts, were independently reviewed for propriety. Between August 26, 2019 and July 15, 2023, FSU processed 591 adjustments that increased employee leave balances by 20,569 hours and 291 adjustments that decreased leave balances by 2,647 hours. During that same period, FSU processed approximately \$5.7 million in other earnings transactions.

- FSU did not use available system output reports of leave adjustments to ensure that such adjustments were proper. Our test of four material leave adjustments that increased leave balances by 3,979 hours disclosed two adjustments that increased the leave of two employees by 929 hours that did not appear to be proper. Specifically, the adjustments added leave accrued by these employees when they worked at a community college when BOR policies and procedures only allow for the transfer of leave from leave accrued at other USM institutions or a State agency. Based on our calculations using the employees' current salaries, the value of the 929 hours totaled approximately \$24,000.
- Reviews performed to ensure the propriety of other earnings transactions were performed by employees who were responsible for processing these transactions, and therefore were not independent. FSU was unable to generate an output report that readily identified the specific employees who processed individual other earnings transactions. As a result, we were unable to test such transactions processed by these employees.

Recommendation 6

We recommend that FSU

- a. use available output reports to independently verify leave balance adjustments to ensure that only valid adjustments have been processed and take appropriate corrective action when errors are noted, including those noted above; and**
- b. perform independent supervisory reviews of other earnings transactions to supporting documentation.**

Cash Receipts

Finding 7

FSU employees responsible for verifying that recorded collections were deposited also had access to the related collections prior to deposit.

Analysis

FSU did not independently verify that all collections received and recorded at the university and student billing office (primarily for tuition, fees, and room and board) were deposited. According to the State's accounting records that office's collections totaled approximately \$25.6 million during fiscal year 2023.

Our review disclosed that the two employees responsible for performing deposit verifications also had access to the related collection prior to deposit. As a result,

errors or other discrepancies could occur without timely detection. The Comptroller of Maryland's *Accounting Procedures Manual* requires an independent verification of collections to deposit. Our test of three days collections, totaling \$312,375, disclosed that all tested collections were deposited intact.

Recommendation 7

We recommend that FSU ensure that an employee without access to collections verifies all recorded collections to deposit. We advised FSU on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – Frostburg State University (FSU) for the period beginning August 26, 2019 and ending July 15, 2023. 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 FSU'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 procurements and disbursements, student accounts receivable, financial aid, cash receipts, payroll, corporate purchasing cards, and information systems security and control. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to FSU by the USM Office and the University of Maryland College Park on a centralized basis for several other units of USM, such as bond financing and processing certain construction vendor payments, respectively. These support services are included within the scope of our audits of the USM Office and the University of Maryland College Park. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of FSU's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the components of the USM.

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 26, 2019 to July 15, 2023, 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 FSU'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 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.

We also extracted data from FSU's financial system for the purpose of testing certain areas, such as student accounts receivable and financial aid. 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.

FSU'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 FSU, 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 FSU's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to FSU that did not warrant inclusion in this report.

The response from the USM Office, on behalf of FSU, 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 USM Office regarding the results of our review of its response.

OFFICE OF ADMINISTRATION AND FINANCE

September 9, 2024

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Re: University System of Maryland – Frostburg State University
Period of Audit: August 26, 2019 through July 15, 2023

Dear Mr. Tanen,

Thank you for the work of your team and the recommendations you provided. I have enclosed the University System of Maryland's responses to your draft report covering the examination of the accounts and records of the University System of Maryland – Frostburg State University. Our comments refer to the individual items in the report.

Sincerely,



Ellen Herbst
Senior Vice Chancellor for Administration and Finance

Enclosures

cc: Dr. Ronald Nowaczyk, President, FSU
Ms. Linda R. Gooden, Chair, University System of Maryland Board of Regents
Mr. Louis M. Pope, University System of Maryland Board of Regents
Dr. Jay A. Perman, Chancellor, University System of Maryland
Ms. Celeste Denson, Associate Vice Chancellor for Financial Affairs, USM Office
Mr. David Mosca, Vice Chancellor for Accountability, USM Office
Mr. Michael C. Eismeier, Associate Vice Chancellor and CIO, USM Office
Ms. Samantha Norris, Director, Financial Planning and Analysis, USM Office
Mr. Troy Donoway, Vice President of Administration and Finance, FSU

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Frostburg State University**

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Contracts and Disbursements

Finding 1

FSU did not exercise adequate due diligence or comply with certain procurement policies when it procured a new financial aid system. FSU subsequently determined it was not cost effective to continue using the system and opted to discontinue the contract resulting in the loss of all \$680,000 expended on the system.

We recommend that FSU

- a. comply with BOR policies and procedures and exercise sufficient due diligence when procuring future contracts, and**
- b. include a provision for liquidated damages in future contracts.**

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	<p>The financial aid system referenced is a with a vendor FSU has an existing contract. Some of the \$680,000 expended for the system would have been incurred had FSU continued with the existing system. The software system was implemented and in use for a period of time before deciding to return to our previous system. Had FSU not procured that financial aid system, costs would have still been incurred for continuing the use of the existing software and for the services of associated consultants.</p> <p>FSU disagrees that adequate due diligence was not performed. While not documented, each decision was given full consideration as being in the best interest of FSU and the goal of ensuring students were awarded financial aid in a timely manner. FSU does not agree that a \$680,000 loss was incurred. The Financial Aid System was used for three years at a total cost of \$680,000, and student financial aid was successfully awarded to students during this period. The difference in costs between the original Financial Aid System and the new System for the three-year period is \$103,000.</p> <p>Although a successful implementation, there were challenges with the new System and personnel. Key leadership that were instrumental in deciding to go with the new technology were no longer with university within a year of the implementation There was also a complete turnover</p>

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	of financial aid staff. The new staff and leadership were more knowledgeable of the original Financial Aid Software. These factors along with an analysis of ongoing costs led FSU to make the decision in the best interest of the University and the students, to return to the original financial aid system.
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Auditor's Comment: While FSU agrees with our recommendations, it disagrees that adequate due diligence was not performed and does not agree that a \$680,000 loss was incurred. In regard to the due diligence, FSU acknowledged that they have no documentation of their due diligence efforts and as such we have no way to verify the assertions made in its response. In regard to the lost funds, FSU's response indicates that the loss was significantly lower because it used the system for a short period prior to the decision to discontinue its use. Since the system was not intended to be temporary, we believe that the decision to discontinue using the system would constitute the loss of the related costs. Furthermore, FSU did not dispute the amount lost during or subsequent to the audit field work and only raised the concern in its response to the report. In addition, FSU's explanation of the circumstances leading up to the decision to discontinue the system has changed multiple times. Given these conflicting explanations, lack of support for the decisions made on this contract, and its calculation of the amount lost, we stand by the facts presented in this report.

Recommendation 1a	Agree	Estimated Completion Date:	12/01/2024
Please provide details of corrective action or explain disagreement.	<p>FSU agrees it did not complete a sole source justification for this purchase. FSU will follow USM's Procurement Policy and Procedures when procuring future contracts.</p> <p>FSU also agrees that documentation of the due diligence performed on this project was not adequate. FSU is in the process of developing methodology to document major IT decisions going forward. This methodology will include input by the appropriate departments (IT, Finance, Procurement, Legal) for completeness. Prior to approval of major IT projects, FSU will document the due diligence steps completed that led to the decision being made.</p>		
Recommendation 1b	Agree	Estimated Completion Date:	01/01/2025

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Please provide details of corrective action or explain disagreement.	FSU will discuss with legal counsel, IT professionals and procurement as to whether including liquidated damages provision in future contracts is appropriate.
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Finding 2

FSU did not competitively procure student mental health services initially obtained without competition in October 2019 through an emergency procurement, and then extended multiple years using questionable sole source justifications. FSU also did not obtain required Board of Public Works (BPW) approval when contract costs exceeded \$1 million or ensure rates paid were consistent with the contract.

We recommend that FSU

- a. use a competitive procurement process for the aforementioned student mental health services;**
- b. timely prepare and document required justifications when competitive procurement is not used;**
- c. obtain required BPW approval when contract costs exceed \$1 million; and**
- d. take steps to identify and recover all overpayments made for the aforementioned services, including those noted above.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	01/01/2025
Please provide details of corrective action or explain disagreement.	FSU is in the process of putting out an RFP for these services on eMMA.		
Recommendation 2b	Agree	Estimated Completion Date:	01/01/2025
Please provide details of corrective action or explain disagreement.	Going forward, FSU will ensure that required justifications are completed in a timely manner.		

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Recommendation 2c	Agree	Estimated Completion Date:	07/01/2024
Please provide details of corrective action or explain disagreement.	Going forward, FSU will ensure that required BPW approval is obtained when contract costs exceed \$1 million.		
Recommendation 2d	Disagree	Estimated Completion Date:	N/A
Please provide details of corrective action or explain disagreement.	No overpayments exist in relation to the aforementioned contract.		

Auditor's Comment: FSU disagrees that any overpayments exist with the contract. As noted in our Analysis, an addendum to the contract was signed in August of 2023 indicating new rates to pay the vendor beginning in October of 2023, the start of the next contract year. FSU paid these new increased rates prior to October 2023. FSU did not dispute the factual accuracy of any of these statements in its response accordingly, we stand by our finding that the amounts paid were improper and the related costs should be recovered.

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Finding 3

FSU did not verify that its use of contracts procured by other entities was in the best interest of FSU as required by BOR procurement policies and procedures. FSU also did not verify that rates charged were consistent with the related contracts.

We recommend that FSU document its compliance with USM policies and verify that

- a. its use of contracts established by other organizations, institutions, or agencies is in the best interest of FSU, and that the contracts were properly procured (repeat); and**
- b. amounts invoiced by vendors are consistent with established contract rates (repeat).**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	01/01/2025
Please provide details of corrective action or explain disagreement.	As FSU enters future contracts, we will comply with the USM policies that are in effect at the time of the contract. FSU is in the process of reviewing current procedures with the intention of determining if any changes need to be made in order to ensure compliance and will implement any such changes deemed necessary.		
Recommendation 3b	Agree	Estimated Completion Date:	01/01/2025
Please provide details of corrective action or explain disagreement.	The functional contract administrator will be responsible for verifying that prices are consistent with contract rates.		

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Student Accounts Receivable

Finding 4

FSU had not established sufficient controls over student residency determinations and certain adjustments recorded in student accounts.

We recommend that FSU

- a. ensure that independent supervisory reviews of all initial student residency determinations and residency status changes recorded in the student accounts receivable system are conducted and documented, and**
- b. ensure that an independent verification of non-cash credit adjustments is performed utilizing a report generated by an independent employee.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	09/01/2024
Please provide details of corrective action or explain disagreement.	FSU is in the process of implementing new procedures to improve segregation of duties to ensure that an independent review is performed and properly documented on all student residency changes. The Data Control Clerk Lead in the Admissions Office will perform the review and will not have access to make residency changes.		
Recommendation 4b	Agree	Estimated Completion Date:	07/01/2024
Please provide details of corrective action or explain disagreement.	An independent verification of non-cash credit adjustments has been implemented. An employee independent of entering non-cash credits and independent of the verification process will run the report and perform the reconciliations.		

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Student Financial Aid

Finding 5

FSU did not ensure that all institutional aid awards, which were based in part on the student's residency status, reflected the student's actual residency status at the time of award. We identified incorrect awards totaling approximately \$64,000.

We recommend that FSU

- a. ensure that all institutional aid award amounts reflect the correct student residency status; and**
- b. review the aid awarded to students, including those noted above, and take appropriate corrective action.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 5a	Agree	Estimated Completion Date:	09/01/2024
Please provide details of corrective action or explain disagreement.	FSU will implement procedures to utilize query and disbursement setup rules to identify students who change residency after they have been awarded aid. Any aid adjustments based on the change of residency will be performed as needed.		
Recommendation 5b	Agree	Estimated Completion Date:	09/01/2024
Please provide details of corrective action or explain disagreement.	FSU is in the process of reviewing the aid awards in question and will make appropriate corrections on a case-by-case basis as determined by the review.		

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Payroll

Finding 6

FSU did not ensure that all critical payroll related transactions, including adjustments to employee leave balances and other earnings transactions, were independently reviewed for propriety.

We recommend that FSU

- a. use available output reports to independently verify leave balance adjustments to ensure that only valid adjustments have been processed and take appropriate corrective action when errors are noted, including those noted above; and**
- b. perform independent supervisory reviews of other earnings transactions to supporting documentation.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	09/01/2024
Please provide details of corrective action or explain disagreement.	The Benefits Manager reviewed and corrected the accrued sick leave balance errors as identified. Affected employees were notified via letter on November 9, 2023. Going forward, the Benefits Manger will ensure that unused sick leave earned when employed by a community college will not be transferred to FSU and notify new employees as such at the time of hire. FSU will implement a tracking system to ensure that only valid leave balance adjustments are processed and take appropriate action in the event that any errors are discovered.		
Recommendation 6b	Agree	Estimated Completion Date:	07/01/2024
Please provide details of corrective action or explain disagreement.	An approval process will be put into operation with the implementation of Workday.		

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Cash Receipts

Finding 7

FSU employees responsible for verifying that recorded collections were deposited also had access to the related collections prior to deposit.

We recommend that FSU ensure that an employee without access to collections verifies all recorded collections to deposit. We advised FSU on accomplishing the necessary separation of duties using existing personnel.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 7	Agree	Estimated Completion Date:	06/01/2024
Please provide details of corrective action or explain disagreement.	In order to create a proper segregation of duties, as of October 2023, the University and Student Bulling Bursar's access to the cash registers was removed. This employee does not have access to check scanning. Effective June 1, 2024, the Assistant Bursar's access to the cash registers and check scanning has been removed.		

AUDIT TEAM

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