



Department of Legislative Services
Office of Legislative Audits

Morgan State University

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Presentation to
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House Appropriations Committee
Education and Economic Development
Subcommittee

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Audit Overview

- Morgan State University (MSU) offers a variety of baccalaureate, masters and doctoral programs with an emphasis on business, education, engineering and the sciences.
- MSU enrollment is approximately 6,700 students.
- During FY 2007, MSU revenues totaled about \$172 million, including a General Fund appropriation of \$63 million.



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Key Audit Issues

- Telecommunications hub relocation project:
 - A \$3.1 million allowance for undefined costs was not disclosed to the BPW and was used on other unrelated construction projects awarded to the same contractor.
 - Questionable payments of up to \$2.4 million were made to the contractor.
 - Change orders totaling \$2.3 million were processed to purchase goods and services outside the scope of the original contract without BPW approval.
 - Contractor increased its bid on another project by \$68,000 with no apparent change in scope and MSU appeared to artificially divide the project into components to avoid BPW approval.
 - MSU authorized the contractor to complete certain work even though the funds were not available.
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Key Audit Issues (continued)

- General practices for capital improvement projects:
 - Change orders were often approved after the related work had been completed and paid for.
 - Liquidated damages were not always assessed even though provided for in contract documents.
 - MSU frequently did not meet minority business enterprise participation goals.
 - Documentation of construction project inspections was lacking.

- Salary overpayments totaling \$121,400 were made to two MSU employees, and the overpayments were not referred to appropriate State authorities, as required.



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Telecommunications Hub Relocation

- MSU hired a contractor in August 2005 to construct a new telecommunications hub and relocate the existing hub to a new location.
- The original contract was for \$4.3 million, including \$1.2 million in clearly defined costs and a \$3.1 million allowance for undefined costs.
- Change orders totaling \$3.6 million were subsequently processed, bringing the total contract cost to \$7.9 million.
- As of June 2007, project expenditures totaled \$7.4 million.
- We identified a number of questionable matters that were referred to the Criminal Division of the Office of the Attorney General.



Telecommunication Hub Relocation (continued)

- The \$3.1 million in undefined allowance costs lacked deliverables and were not subject to competitive bidding. This was not disclosed to BPW when the project was submitted for approval. (Finding 1)
- Neither MSU nor the contractor prepared a detailed plan of how the \$3.1 million undefined allowance was to be used prior to being spent.
- As of June 2007, MSU had used \$3 million of the undefined allowance to finance other projects managed by the same contractor that were completely unrelated to the hub relocation project.
- Project invoices paid during the period from January 2006 to June 2007 totaling \$3.3 million, included questionable payments of up to \$2.4 million. For example, MSU overpaid the contractor \$825,250 for duplicate billings. (Finding 2)



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Telecommunication Hub Relocation (continued)

- As of December 2007, MSU had taken no action to recover or resolve any of the questionable payments.
- Change orders totaling \$2.3 million were processed to obtain goods and services that were outside the scope of the original project. (Finding 3)
- Some of these change orders appeared to have been artificially divided to avoid required BPW approval (valued at less than \$500,000). Other than the campus location where the work was to be performed, the description of the work was identical on each change order.



Telecommunication Hub Relocation (continued)

- MSU permitted the contractor to increase its bid on another project by \$68,000 with no apparent change in the scope of the work to be performed. (Finding 4)
- Total project costs also appeared to have been artificially divided into components to avoid required BPW approval (valued at less than \$500,000).
- MSU authorized the contractor to perform certain work even though funds were not available to pay the contractor. The contractor deferred billings on another contract (paid for, in part, with undefined allowance funds) for up to nine months after the work had been completed. (Finding 5)



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General Practices - Capital Improvement Projects

- Change orders were often not approved by MSU senior management personnel until after the related work had been completed and paid for. (Finding 6)
- MSU failed to assess liquidated damages totaling \$3.1 million against three contractors for projects not completed timely (16 to 23 months late), and had not documented why damages were not assessed. (Finding 7)
- MSU did not meet its minority business enterprise participation goals on five (\$104.3 million) of nine (\$120 million) projects reviewed. (Finding 8)
- MSU had not prepared written reports of construction project inspections since May 2006. (Finding 9)



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Salary Overpayments

- MSU lacked adequate procedures to prevent and detect improper salary payments to employees on both the regular and contractual payrolls. (Finding 10)
- MSU improperly paid two employees simultaneously on both its regular and contractual payrolls for extended periods of time, resulting in salary overpayments totaling \$121,400.
- MSU's efforts to investigate and recover the overpayments were not adequate.
- The overpayments were not referred timely to the Attorney General's Criminal Division or the Chief Counsel to the Governor, as required by a Governor's Executive Order.



Conclusions

- MSU should fully disclose material facts of contracts submitted to the BPW, including the aforementioned undefined allowance. MSU should also comply with State procurement regulations by not artificially dividing change orders and projects to avoid BPW approval.
- MSU should verify the propriety of contractor invoices, including the aforementioned questionable payments, recover any overpayments and not authorize contractors to complete work unless funding is available.
- Change orders should be approved before the work is authorized and paid for, and liquidated damages should be assessed when appropriate.



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Conclusions (continued)

- MSU should ensure minority business enterprise participation goals are met to the extent possible, and document project inspection activities.

- MSU should establish procedures to ensure the propriety of employees paid on dual payrolls, take appropriate action to investigate and recover salary overpayments, and refer instances of possible criminal or unethical employee conduct to appropriate State officials.