

Audit Report

**University System of Maryland
University of Maryland, College Park**

May 2015



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

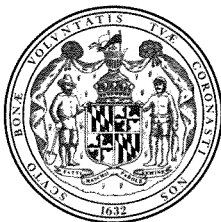
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

May 11, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate Craig J. Zucker, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland, College Park (UMCP) for the period beginning July 6, 2010 and ending March 4, 2014. UMCP is a comprehensive public institution of USM and operates under the jurisdiction of USM's Board of Regents. UMCP offers a broad range of baccalaureate, master's, and doctoral programs in the liberal arts and sciences and selected professional fields.

Our audit disclosed that summer research activities conducted by faculty were not adequately monitored to ensure the validity of related compensation payments, which totaled \$17 million and \$16 million during the summers of 2014 and 2013, respectively. In addition, disbursement transactions lacked sufficient approval requirements, and certain collections were not adequately controlled.

Our audit also disclosed control deficiencies pertaining to the recording of certain transactions in UMCP's automated financial aid, student accounts receivable, and dining services records. Furthermore, UMCP had not established sufficient access and monitoring controls for critical data files and databases.

The University System of Maryland Office's response to this audit, on behalf of UMCP, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by UMCP.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The University of Maryland, College Park (UMCP) is a comprehensive research university for the State of Maryland and is the flagship institution of the University System of Maryland (USM). It offers baccalaureate, master's, and doctoral programs in the liberal arts and sciences and selected professional fields. For the Fall 2014 term, enrollment totaled 37,610.

UMCP's budget is funded by unrestricted revenues, such as tuition and fees and a State general fund appropriation, and restricted revenues, such as federal grants and contracts. According to the State's accounting records, fiscal year 2014 revenues totaled approximately \$1.8 billion, including a State general fund appropriation of approximately \$413 million.

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 dated July 14, 2011. We determined that UMCP satisfactorily addressed these findings.

Findings and Recommendations

Faculty Research Monitoring

Finding 1

Faculty summer research activities, for which payments totaling approximately \$17 million were made in 2014, were not adequately documented to support the related payments.

Analysis

The University of Maryland, College Park (UMCP) did not require faculty to submit documentation to substantiate summer research work performed to support the related compensation payments. In general, faculty received approval from their academic department chairs to conduct summer research and such approval was used to authorize payment. However, there was no University-wide requirement that the faculty members document their research proposals or the work performed. According to its records, UMCP paid approximately \$17 million and \$16 million to faculty members for summer research during the summers of 2014 and 2013, respectively.

Our test of nine faculty members, who received additional compensation payments totaling \$595,000 for research activity during the summer of 2013, disclosed that UMCP could not provide documentation, such as approved research proposals and reports of work performed, to support the activities of seven of these faculty members who received \$392,000. For the other faculty members, the academic department chairs provided us with documentation of the research activity. UMCP advised us that certain documentation, such as “effort reports,” is required to verify research work supported by contracts and grants; however, not all summer research work is funded in this manner. In this regard, only one of the seven previously mentioned research activities had federal funding, totaling \$37,000, and no such additional documentation could be provided. As a result, UMCP lacked assurance that additional compensation payments for research activities were proper.

The *University Policy on Faculty Appointment Letters and Summer Compensation* allows faculty members on a nine-month academic year appointment to earn up to one-third of their academic year salary as additional compensation for research, administrative assignments, and teaching.

Recommendation 1

We recommend that UMCP require appropriate documentation, such as approved proposals and reports of work performed, be submitted to substantiate faculty summer research activities and that this documentation be reviewed to help confirm the work performed before payments are made.

Disbursements**Finding 2**

UMCP lacked sufficient approval requirements for disbursement transactions.

Analysis

UMCP had not established independent online approval requirements for disbursement transactions processed in its automated financial system, and numerous employees were assigned system access capabilities that allowed them to process and release such transactions for payment without approval. Specifically, 38 employees had the capability to process disbursement transactions without independent approval, including 6 employees of other University System of Maryland units. Thirty-six of these employees could also add or modify vendors in the system, and 6 employees could release disbursement batches to the State's financial system for payment. Without a requirement for independent online approval, unauthorized disbursements could be processed without detection.

Although UMCP had established certain alternative procedures to obtain approval for disbursements processed, these procedures were ineffective because the procedures could be bypassed or were performed by three of the aforementioned six employees with access to process and release disbursement transactions. UMCP processed disbursements totaling \$397 million during fiscal year 2014 according to the State's accounting records.

Recommendation 2

We recommend that UMCP establish independent online approval requirements for all disbursement transactions.

Cash Receipts

Finding 3

UMCP did not sufficiently control and account for certain collections.

Analysis

UMCP did not sufficiently control and account for certain cash, check, and credit card collections totaling approximately \$395 million during fiscal year 2014.

- Procedures used by the Bursar's Office to verify collections were deposited did not include all credit card receipts. Our review of credit card collections received through the Bursar's Office during fiscal years 2013 and 2014 totaling \$528,599, disclosed that \$479,957 of this total had not been verified to deposit.
- Two employees in the Bursar's Office had the ability to process voids on the cash register system without independent approval and had access to collections. One of these employees was also responsible for reviewing cashier close-out reports, which included voids, and for reconciling those reports to the related collections.
- The deposit verification procedures used by UMCP's Dining Services were inadequate since the initial record of collections was not used in this process, and the employee who performed the verifications also served in a back-up capacity for receiving and recording collections. In addition, checks received for facility rental fees and catering services were not restrictively endorsed immediately upon receipt. Rather, these checks were forwarded to other employees for processing before they were restrictively endorsed.

As a result of these conditions, there was a lack of assurance that all collections were properly accounted for and deposited. The Comptroller of Maryland's *Accounting Procedures Manual* requires that checks be restrictively endorsed upon receipt and that receipts recorded on initial source documents be traced to deposit by an employee independent of the cash receipts process. The *Manual* also requires State agencies to segregate cash handling duties from cash receipts accounting functions. According to UMCP's records, during fiscal year 2014, credit card collections received through the Bursar's Office totaled approximately \$8 million, while cash and checks received by the Office totaled \$382 million. During the same period, collections by UMCP's Dining Services totaled \$5 million.

Recommendation 3

We recommend that UMCP

- a. ensure that an employee independent of the cash receipts functions, using the initial record of receipt, verifies that all collections, including credit card receipts, are subsequently deposited;**
- b. ensure that employees with access to cash receipts do not have the ability to void transactions; and**
- c. restrictively endorse all collections immediately upon receipt.**

We advised UMCP on accomplishing the necessary separation of duties using existing personnel.

Student Financial Aid

Finding 4

Certain financial aid transactions posted to student accounts were not subject to a documented, independent review.

Analysis

Financial aid awards and adjustments that were manually posted to student accounts were not subject to a documented, independent review. Although UMCP advised us that awards and adjustments manually posted to its automated financial aid records were reviewed on a test basis to ensure they had been properly authorized, the specific awards and adjustments selected for review, as well as the results of the reviews were not documented. Furthermore, the employee responsible for performing these reviews had the capability to modify student financial aid awards in the automated records. A total of 10 employees had the capability to manually adjust student financial aid in the automated records. Consequently, there was a lack of assurance that all awards and adjustments that were manually posted were valid.

Manual recording of financial aid awards and adjustments was necessary primarily for non-federal grants and scholarships. According to UMCP's records, non-federal grants and scholarships totaled approximately \$114 million during fiscal year 2014.

Recommendation 4

We recommend that UMCP

- a. ensure that the reviews of financial aid awards and adjustments manually posted to student accounts, including the selection process and results, are fully documented; and**

- b. ensure that supervisory personnel without the capability to manually record financial aid awards and adjustments perform the reviews.**

Student Accounts Receivable

Finding 5

Non-cash credit adjustments posted manually to student accounts receivable records were not sufficiently controlled.

Analysis

Non-cash credit adjustments posted manually to UMCP's automated student accounts receivable records by Bursar's Office and Dining Services employees were not adequately controlled. Although employees reviewed system output reports of non-cash credit adjustments posted to student accounts receivable records to ensure the adjustments had been properly authorized, the employees who performed these reviews also had the ability to record adjustments in the records. As a result, unauthorized adjustments could be made without detection. Our review of system access disclosed that 18 employees in the Bursar's Office and 3 employees in Dining Services had the capability to unilaterally process certain non-cash credit adjustments in the accounts receivable records because the system did not have the capability to require independent on-line supervisory approval.

A significant amount of non-cash credit transactions relate to nonresident tuition (such as to adjust nonresident to resident tuition) and meal plans. According to UMCP's records, during the period from January 2013 through February 2014, UMCP posted approximately \$72 million in these types of non-cash credit adjustments to the accounts receivable records.

Recommendation 5

We recommend that UMCP ensure that supervisory personnel independent of the accounts receivable process within each applicable UMCP unit verify, at least on a test basis, that manually processed non-cash credits posted by the unit were properly authorized.

Dining Services

Finding 6

UMCP had not established controls to ensure the accuracy of meal plan records in its automated system.

Analysis

UMCP's Dining Services had not established adequate controls to ensure the accuracy of its student meal plan records. Specifically, UMCP had not performed a review of the propriety of the access capabilities assigned to users on the Dining Services automated system during our audit period. According to UMCP records, 28 accounts were assigned capabilities that allowed the users to adjust student meal plan information in the automated Dining Services records without independent approval. Six of these accounts were generic accounts that had not been assigned to specific individuals. UMCP could not demonstrate that all users assigned to these accounts needed those access capabilities to perform their job duties. Additionally, although student meal plan records were periodically reconciled with UMCP's student accounts receivable records, the employee who performed the reconciliations also had the capability to record transactions, such as additional meal purchases and refunds, in both systems without approval. As a result, improper or unauthorized adjustments, such as to increase student meal points, could be processed without detection.

Each semester, student meal plan purchases are uploaded from the student accounts to the Dining Services automated records and credited to student UMCP identification cards which track student meal plan points usage. Additional meal plan purchases made by the students during the semester are manually recorded in the accounts receivable and Dining Services systems. According to UMCP's records, meal plan revenue in fiscal year 2014 totaled approximately \$33 million.

Recommendation 6

We recommend that UMCP

- a. routinely review the access capabilities assigned to users on the Dining Services system for propriety and eliminate unnecessary user access as well as generic user accounts, and**
- b. ensure that the individual responsible for performing the reconciliation of board meal plan records in the Dining Services system with the student accounts receivable records is independent of the related recordation functions.**

Information Systems Security and Control

Background

UMCP's Division of Information Technology (DIT) manages the development, maintenance, and support of UMCP's information technology infrastructure including related networking, telecommunications, and business information systems. DIT maintains a campus-wide network, supporting both administrative and academic operations at UMCP. DIT also maintains critical UMCP applications such as the student administration and payroll and human resources application systems.

Finding 7

Access and monitoring controls over critical production data files and databases were not sufficient.

Analysis

Access and monitoring controls over critical production data files and databases were not sufficient to protect the related data.

- Mainframe security software access rules allowed numerous users unnecessary and unlogged direct modification access to critical production data files (for example, files that could be used to alter student accounts receivable account balances). As a result of this condition, unauthorized changes to these critical production data files could be made without detection.
- A report, reviewed by management, which identifies direct, logged changes made to mainframe data files, did not include any direct changes made to 29 critical data files used by the student accounts receivable system and the student information system. As a result of this condition, any unauthorized changes made to these critical production data files would not be subject to management's review.
- Direct changes to critical data and security tables in the financial and payroll/human resources databases were not logged. In addition, the use of numerous critical privileges (for example, alter any role) in these databases was not logged. As a result of these conditions, the use of the aforementioned privileges and any unauthorized changes made to these databases' security settings and data would not be subject to management's review.

The University System of Maryland's *IT Security Standards* state that institutions must implement authentication and authorization processes that appropriately control access to systems. Furthermore, the University System of Maryland Security Council *Guide for Security Event Logging* requires each institution to maintain appropriate audit trails of events and actions related to critical applications and data, as required by State and federal laws/regulations. Further, these significant actions and events must be reviewed and documented.

Recommendation 7

We recommend that UMCP

- a. restrict access to critical production data files to only those users requiring such access;**
- b. log all direct modifications to critical production data files;**
- c. amend the management report to include direct changes to all critical data files, including the aforementioned 29 files; and**
- d. log the use of all critical privileges and direct changes to data and security tables in the financial and payroll/human resources databases.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland, College Park (UMCP) for the period beginning July 6, 2010 and ending March 4, 2014. 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 UMCP'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 purchases and disbursements related to UMCP's operations, student accounts receivable, cash receipts, payroll, auxiliary enterprises/services, information security over UMCP computer applications, and student financial aid. Our audit also included certain support services (such as the processing of vendor payment transmittals) provided by UMCP on a centralized basis for several other units of USM. We also determined the status of the findings included in our preceding audit report.

Our audit did not include the computer operations of the UMCP Division of Information Technology (DIT) as it relates to services primarily provided to other USM institutions. A separate audit of the DIT is conducted. Our audit also did not include certain support services (such as bond financing) provided to UMCP by the USM Office. These support services are included within the scope of our audit of the USM Office. 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 UMCP'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 UMCP.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspection of documents and records, observations of UMCP's operations, and tests of transactions. 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 various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from UMCP's financial systems 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.

UMCP'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.

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 UMCP'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 UMCP that did not warrant inclusion in this report.

The response from the USM Office, on behalf of UMCP, 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.

APPENDIX



OFFICE OF THE CHANCELLOR

May 7, 2015

Mr. Thomas J. Barnickel III, CPA
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Coppin State University

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Salisbury University

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University of Baltimore

1925
University of Maryland
Center for Environmental
Science

1947
University of Maryland
University College

1966
University of Maryland,
Baltimore County

Re: University System of Maryland – University of Maryland, College Park
Period of Audit: July 6, 2010 through March 4, 2014

Dear Mr. Barnickel:

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 – University of Maryland, College Park. Our comments refer to the individual items in the report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "W E Kirwan".

William E. Kirwan
Chancellor

Enclosures

cc: Dr. Wallace D. Loh, Ph.D., President, UMCP
Mr. Carlo Colella, Vice President for Administration and Finance, UMCP
Mr. James L. Shea, Chair, University System of Maryland Board of Regents
Mr. Anwer Hasan, Chairman, MHEC
Ms. Jennie C. Hunter-Cevera, Ph.D., Acting Secretary of Higher Education,
MHEC
Mr. Robert L. Page, Associate Vice Chancellor for Financial Affairs, USM
Office
Mr. Paul S. Dworkis, Associate Vice President of Finance & Chief Financial
Officer, UMCP
Mr. David Mosca, Director of Internal Audit, USM Office

**RESPONSE TO LEGISLATIVE AUDIT REPORT
UNIVERSITY SYSTEM OF MARYLAND
UNIVERSITY OF MARYLAND, COLLEGE PARK
JULY 6, 2010 TO MARCH 4, 2014**

Faculty Research Monitoring

Finding 1

Faculty summer research activities, for which payments totaling approximately \$17 million were made in 2014, were not adequately documented to support the related payments.

Recommendation 1

We recommend that UMCP require appropriate documentation, such as approved proposals and reports of work performed, be submitted to substantiate faculty summer research activities and that this documentation be reviewed to help confirm the work performed before payments are made.

University response

The university agrees to implement institution-wide procedures including documentation requirements to ensure that academic units properly document summer research activities and substantiate payments. It is important to note the \$16 and \$17 million referenced in the analysis includes both sponsored and non-sponsored funds, and the university has a federally approved effort reporting system to document faculty effort on sponsored research. The institution will review and enhance compliance processes to ensure that procedures for documenting research activities are being adhered to by academic units.

Disbursements

Finding 2

UMCP lacked sufficient approval requirements for disbursement transactions.

Recommendation 2

We recommend that UMCP establish independent online approval requirements for all disbursement transactions.

University response

The University concurs with this recommendation.

UMCP will review and amend processes on disbursement transactions within the accounts payable functions at UMCP, including segregating roles and clarifying

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functionality within our electronic systems. This will ensure that proper internal controls are in place for independent online approval of all critical transactions. In addition, UMCP will work closely with the other USM unit to achieve appropriate controls for the six employees processing disbursement transactions at that institution.

Cash Receipts

Finding 3

UMCP did not sufficiently control and account for certain collections.

Recommendation 3

We recommend that UMCP

- a. ensure that an employee independent of the cash receipts functions, using the initial record of receipt, verifies that all collections, including credit card receipts, are subsequently deposited;**
- b. ensure that employees with access to cash receipts do not have the ability to void transactions; and**
- c. restrictively endorse all collections immediately upon receipt.**

We advised UMCP on accomplishing the necessary separation of duties using existing personnel.

University response

The university agrees with the need to properly control and account for collections, as recommended by the auditors. During implementations of two critical financial systems, the university acknowledges that there were limited periods in which there were minor deviations from the normal control processes. UMCP believes it has adequate segregation of duties in cash handling and cash accounting functions and will ensure that procedures are followed to maintain a sound control environment.

- a. The Office of the Bursar has an independent review of cash, check, and credit card receipts outside of our cashiering functions within the accounting unit. The nine week period identified (1/23-3/31/14) was the initial implementation of the university's new accounting system. During this timeframe, reports needed to perform the independent review were delayed. The independent review process for cash, check and credit card receipts is being conducted on a regular basis. Additionally, all receipts for the period identified have been confirmed and no exceptions were noted.

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- b. The Office of the Bursar acknowledges there was a very limited period where two employees were given access to void transactions during the implementation of a new cashiering system in April 2014. After system stabilization of four months, access was removed for the second employee in early August 2014. Void capabilities now belong to the manager who does not have access to process batches within the system.
- c. UMCP agrees with the recommendations related to deposit verifications and restrictive endorsement in Dining Services. The unit has enhanced their verification process to include additional independent business office staff in the review process. All remote offices have the necessary endorsement stamp and have been trained to restrictively endorse all collections received.

Student Financial Aid

Finding 4

Certain financial aid transactions posted to student accounts were not subject to a documented, independent review.

Recommendation 4

We recommend that UMCP

- a. **ensure that the reviews of financial aid awards and adjustments manually posted to student accounts, including the selection process and results, are fully documented; and**
- b. **ensure that supervisory personnel without the capability to manually record financial aid awards and adjustments perform the reviews.**

University response

The university concurs with the recommendation and has already modified documentation procedures to ensure complete compliance. The report generated from the automated awarding system has been enhanced to allow online documentation of the review process. This review process includes documentation of selected students and results, and is verified by an employee independent of the process.

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Student Accounts Receivable

Finding 5

Non-cash credit adjustments posted manually to student accounts receivable records were not sufficiently controlled.

Recommendation 5

We recommend that UMCP ensure that supervisory personnel independent of the accounts receivable process within each applicable UMCP unit verify, at least on a test basis, that manually processed non-cash credits posted by the unit were properly authorized.

University response

The university agrees with the need to provide adequate controls over manually processed non-cash credits as recommended by the auditors. It should be noted that this audit found no actual instances of improper transactions of non-cash credits adjustments. The Office of the Bursar will review and modify, as necessary, procedures and processes including the documentation requirements for these transactions to ensure adequate segregation and control. In addition, a financial management employee outside the processing unit will provide additional periodic and documented reviews for all non-cash credits to ensure proper authorization.

Dining Services

Finding 6

UMCP had not established controls to ensure the accuracy of meal plan records in its automated system.

Recommendation 6

We recommend that UMCP

- a. routinely review the access capabilities assigned to users on the Dining Services system for propriety and eliminate unnecessary user access as well as generic user accounts, and**
- b. ensure that the individual responsible for performing the reconciliation of board meal plan records in the Dining Services system with the student accounts receivable records is independent of the related recordation functions.**

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University response

UMCP Dining Services agrees with the recommendations given. Dining Services has established a report to be periodically reviewed by management to evaluate access capabilities assigned to users in the automated system. Additionally, Dining Services will work with the service provider to establish usage reports for reconciliation purposes through our card management system (CS Gold) to ensure that all meal plan adjustments are properly reviewed by an employee independent of the recordation functions.

Information Systems Security and Control

Finding 7

Access and monitoring controls over critical production data files and databases were not sufficient.

Recommendation 7

We recommend that UMCP

- a. restrict access to critical production data files to only those users requiring such access;**
- b. log all direct modifications to critical production data files;**
- c. amend the management report to include direct changes to all critical data files, including the aforementioned 29 files; and**
- d. log the use of all critical privileges and direct changes to data and security tables in the financial and payroll/human resources databases.**

University response

The university concurs with this finding.

The Division of Information Technology has modified processes to provide additional reviews and has improved existing reports to standardize classification in order to ensure that access and controls surrounding critical resources are appropriate. The implemented changes have successfully restricted access of critical production file to only users who require such access; capture into a log any direct modifications to critical production data files; report direct changes to all critical data files through an existing management report; and log the use of all critical privileges and direct changes to data security tables in the financial and payroll/human resources database.

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