

Audit Report

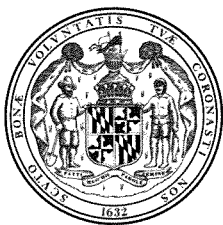
**University System of Maryland
University of Maryland Eastern Shore**

November 2014



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

November 7, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, 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 Eastern Shore (UMES) for the period beginning August 9, 2010 and ending December 1, 2013. UMES is a comprehensive public institution of USM and operates under the jurisdiction of USM's Board of Regents. UMES offers an array of baccalaureate programs in both traditional arts and sciences, and in applied professional fields, as well as select professionally oriented graduate programs and doctoral programs.

Our audit disclosed that UMES did not exercise effective oversight of grants awarded to its affiliated Foundation totaling \$640,000. For example, UMES allowed two of its management employees who, at different times during the audit period, also served as the Foundation's Executive Director, to exercise virtually complete control over the same transactions for both entities. Such transactions included UMES' disbursement of federal funds totaling \$385,000 to the Foundation which, according to federal regulations, was inappropriate because the funds were not used for certain specified purposes. In addition, the UMES employee who served in this management position since January 2013 was involved in business activities that were not disclosed to UMES in accordance with policy and which raise questions regarding a potential conflict of interest. Specifically, this employee conducted business with the Foundation through a limited liability company the employee owned. These business activities were financed, in part, by State grants provided by UMES. Also, UMES and its affiliated Foundation did not comply with certain USM Board of Regents' policies, such as the disclosure of resources provided to the Foundation by UMES in the annual agreements between UMES and the Foundation.

We also noted security and control deficiencies over UMES' information systems. For example, controls over UMES accounts and passwords were not sufficient to

protect this information, and UMES inappropriately stored sensitive personally identifiable information in clear text. Also, UMES needs to take additional steps to secure its information systems, such as restricting access to its internal network and strengthening its malware protection.

Finally, a number of internal control and record keeping deficiencies were noted in areas including student accounts receivable, financial management systems capabilities, cash receipts, and contract procurement and monitoring. For example, UMES lacked controls to ensure the propriety of certain financial aid awards and adjustments posted to student accounts.

An executive summary of our findings can be found on page 5. The USM Office's response to this audit, on behalf of UMES, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by UMES.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

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Executive Summary

**Legislative Audit Report on University System of Maryland (USM)
University of Maryland Eastern Shore (UMES)
November 2014**

- **UMES did not exercise effective oversight of grants totaling \$640,000 awarded to its affiliated Foundation. UMES allowed two of its management employees who, at different times during the audit period, also served as Foundation Executive Director, to exercise virtually complete control over the grant transactions for both entities. In addition, the related scope of the agreements was vague and immeasurable. Furthermore, UMES provided grant funding to the Foundation in advance of the expenditures being incurred; however, it did not obtain documentation to ensure the funds were spent for their intended purposes. Finally, based upon our review, we were unable to account for a \$25,000 grant payment made by UMES to the Foundation. This matter was referred to the Office of the Attorney General (Finding 1).**

UMES should preclude UMES employees who perform managerial functions on behalf of its affiliated Foundation from representing both parties when conducting business. In addition, UMES should ensure the grant agreements are specific to deliverables and accomplishments and that these activities are adequately monitored.

- **The management employee who served as the Foundation Executive Director since January 2013 was involved in business activities with the Foundation that were not disclosed to UMES as required and raise questions regarding a potential conflict of interest. This employee conducted business with the Foundation through a limited liability corporation that this employee owned. These business activities were financed, in part, by State grants provided by UMES. In addition, this employee did not always file financial disclosure statements with the State Ethics Commission (Finding 2).**

UMES should immediately refer this matter to the State Ethics Commission and ensure that the applicable employees properly disclose potential conflicts of interest to UMES as required and file financial disclosure statements.

- **UMES disbursed federal funds totaling \$385,000 to its affiliated Foundation for purposes inconsistent with applicable federal regulations (Finding 3).**

UMES should expend funds in accordance with the applicable federal regulations and should seek reimbursement from the Foundation for these grant payments.

- **UMES and its affiliated Foundation did not comply with certain USM Board of Regents' policies. For example, resources provided to the Foundation by UMES were not accurately disclosed. In addition, required reports were not always submitted by the Foundation (Finding 4).**

UMES should comply with the requirements of the Board of Regents' policies.

- **UMES had not established adequate controls over certain aspects of its student accounts receivable. For example, non-cash credit entries related to housing and board charges were not adequately reviewed to ensure propriety. In addition, independent reviews were not performed to ensure all eligible student accounts were timely referred to the Department of Budget and Management – Central Collection Unit (Findings 5 and 6).**

UMES should take the recommended actions to improve controls over student accounts receivable.

- **Numerous security and control issues were noted regarding UMES' information systems. For example, personally identifiable information was inappropriately stored in clear text (Findings 7 - 11).**

UMES should take the recommended actions to improve security and controls over its information systems.

- **UMES lacked accountability and control over its collections and had not reconciled certain student account balances to its records (Finding 12).**

UMES should take the recommended actions to improve procedures and controls over its cash receipts and student funds.

- **UMES did not adequately monitor certain vendors to ensure compliance with the related contract terms and certain contract procurement did not comply with USM policies (Finding 13).**

UMES should take the recommended actions to improve procedures and controls over its contract procurement and monitoring.

Background Information

Agency Responsibilities

The University of Maryland Eastern Shore (UMES) is a comprehensive public institution of the University System of Maryland (USM) and operates under the jurisdiction of the USM's Board of Regents. UMES offers an array of baccalaureate programs in both traditional arts and sciences, and in applied professional fields, as well as select professionally oriented graduate programs and doctoral programs. Student enrollment for the Spring 2013 semester totaled 4,130, including 3,469 undergraduate students and 661 graduate students. The UMES budget is funded by unrestricted revenues, such as tuition and fees and a State general fund appropriation, and by restricted revenues, such as federal grants and contracts. According to the State's accounting records, UMES' revenues for fiscal year 2013 totaled approximately \$125 million, including a State general fund appropriation of approximately \$30 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 11 findings contained in our preceding audit report dated August 29, 2011. We determined that UMES satisfactorily addressed 10 of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

University Affiliated Foundation

Background

In September 2003, the University System of Maryland (USM) Board of Regents approved the University of Maryland Eastern Shore (UMES) request for the creation of an Affiliated Foundation and Business Entity (Foundation) under the Board of Regents' *Policy on Affiliated Foundations* and its *Policy on Business Entities*. This is the only Foundation affiliated with UMES. In accordance with Board of Regents policies, there are annual written agreements that delineate the purpose of the Foundation, which includes furthering and promoting charitable, educational, and scientific purposes that foster and promote the general welfare and mission of UMES through receipt and management of gifts and other activity. The annual agreements further state that the Foundation will comply with the Board of Regents' *Policy on Affiliated Foundations*. The Foundation is under the direction and control of a Board of Directors and does not have any employees. Its administrative functions are performed by the Executive Director, who is also a management employee of UMES.

Foundations are also created to provide financial support to their affiliated University by providing funds acquired through fund-raising programs and contributions from private sources. Since fiscal year 2011, according to the Foundation's disbursement journal, payments to UMES totaled approximately \$30,000. Conversely, during the period from January 2011 through January 2014, State accounting records indicate UMES made 15 grant awards to the Foundation totaling \$640,000, funded by unrestricted funds of \$90,000 and federal funds totaling \$550,000. These grant awards were executed and awarded to the Foundation to support certain economic development projects, such as agricultural projects.

Finding 1

UMES did not exercise effective oversight of grants awarded to the Foundation.

Analysis

UMES did not exercise effective oversight of grants awarded to its affiliated Foundation to ensure that grant funds were used appropriately and were properly accounted for.

- UMES allowed the two UMES management employees who, at different times during the audit period, also served as the Foundation Executive Director, to exercise virtually complete control over the grant agreements and related transactions for both entities. While the Chairman of the Foundation's Board of Directors signed the grant agreements on behalf of the Foundation, the UMES employees, as liaisons for UMES' dealings with the Foundation, were responsible for executing the grant agreements on behalf of UMES and submitting the invoices to UMES for payment of the grants on behalf of the Foundation. The employees also initiated UMES' payment of the invoices and, after approval of the payments by certain UMES upper management personnel, received the grant payments on behalf of the Foundation. Finally, these employees managed the grant projects on behalf of the Foundation and were responsible for monitoring the performance of the grant projects on behalf of UMES. Although the Board of Regents' *Policy on Affiliated Foundations* allows a UMES management employee to also serve as the Executive Director of the Foundation, the *Policy* stipulates that the employee in this position may not represent both parties in any negotiation between UMES and the Foundation.
- The grant agreements between UMES and the Foundation were not complete. Specifically, the agreements did not include a time period for the performance of the grant projects or require documentation of the Foundation's overall activities and achievements. In addition, although the grant agreements required progress reports, the Foundation did not provide any such reports to UMES. Furthermore, the scope of each agreement was vague and immeasurable. For example, while the agreements stated that the Foundation was to develop agricultural projects targeted for new entrants into agriculture, the agreements failed to indicate any specific projects, deliverables, or accomplishments that were to be achieved. In addition, we were advised by the UMES employee who had been serving as the Foundation's Executive Director since January 2013 that there were no tangible benefits or product deliveries to UMES under these agreements.
- UMES provided grant funding to the Foundation in advance of the expenditures being incurred; however, it did not obtain documentation from the Foundation, such as invoices, to account for the use of the grant funds to ensure they were spent for purposes consistent with the intent of the agreements. We obtained documentation from the Foundation's accounting firm and, based upon general descriptions provided, funds received from UMES were used for travel and administrative expenses, as well as for expenses related to agricultural projects. Certain expenditures appeared questionable since they were primarily related to the Foundation's general

operations and not directly attributable to the general purposes of the grants. For example, during the period from January 2011 through January 2014, \$191,000 of these expenditures was incurred for accounting services provided to the Foundation.

- Because of UMES' lack of accountability over the grant funds advanced to the Foundation, we reviewed the Foundation's records to account for the \$640,000 in UMES payments made during the period from January 2011 through January 2014. Based on our review, we were unable to account for a \$25,000 grant payment made in March 2011. After obtaining a copy of the cancelled check, we determined that the check was deposited in a bank other than the bank used by the Foundation. As a result, this matter was referred to the Office of the Attorney General – Criminal Division. A referral to the Criminal Division does not mean that a criminal act has actually occurred or that criminal charges will be filed. Given that UMES awarded additional grants totaling \$640,000 during the period from July 2006 through December 2010, UMES should consider determining if these grant funds have been properly accounted for.

Recommendation 1

We recommend that UMES

- a. ensure that the UMES employee(s) who also performs managerial functions on behalf of the Foundation is not permitted to represent both UMES and the Foundation in business transactions conducted between them;**
- b. ensure that the scope of the grant agreements includes specific deliverables or accomplishments, a time period for the performance of the grant project, and detailed project requirements;**
- c. obtain the required progress reports that would enable UMES to determine if deliverables were achieved;**
- d. obtain and review supporting documentation from the Foundation for all grant expenditures, including the aforementioned \$191,000, to ensure grant funds are properly accounted for and spent in accordance with the grant agreement, and recover all funds not appropriately spent; and**
- e. consult with USM's Office of Internal Audit to determine the necessity of conducting an expanded review of grant funds advanced to the Foundation to include expenditure activity prior to January 2011.**

Finding 2

A UMES management employee was involved in business activities that were not formally disclosed to UMES as required and that raise questions regarding a potential conflict of interest. In addition, this employee did not always file financial disclosure statements with the State Ethics Commission.

Analysis

The UMES management employee who, since January 2013, served as its liaison with the affiliated Foundation and was the Foundation's Executive Director, also conducted business with the Foundation through a limited liability company (LLC) that this management employee owned, and the employee did not report this relationship to UMES. Furthermore, the employee did not always file financial disclosure statements with the State Ethics Commission; in this regard, UMES failed to notify the Commission of the employee's requirement to file the statements. Finally, this business arrangement raises questions regarding potential conflicts of interest.

This employee began employment with UMES in November 2011 and assumed the aforementioned UMES management position and the position of the Foundation's Executive Director in January 2013. As noted in Finding 1, in the employee's dual capacity, this individual exercised virtually complete control over grant transactions for both entities. Our review disclosed the following conditions pertaining to the employee's business interests and involvement with the Foundation:

- The employee was the controlling member of an LLC that owned the property where four greenhouses, owned by the Foundation, were located for an agricultural development project. Funded by UMES and the Foundation, this agricultural project was proposed to provide information and training to local farmers on the profitability of vegetable production using certain greenhouses and production technologies. The greenhouses were built in fiscal year 2009, prior to the employee being hired by UMES in November 2011, and continued to be in operation as of April 1, 2014.
- The LLC and the Foundation entered into a memorandum of understanding (MOU) regarding the ongoing agricultural development project covering the period from January 1, 2012 to December 31, 2020. Under the terms of the MOU, certain costs that are incurred by the LLC under the project including but not limited to equipment, utilities, insurance, and repairs may be reimbursed or paid by the Foundation on behalf of the LLC. Based upon our review of certain documentation provided by the Foundation's accounting firm, these costs totaled approximately \$380,000 for the period from January

2012 to March 2014. A significant portion of these costs appeared to be funded by the \$640,000 UMES paid to the Foundation under the 15 grant agreements.

- The agricultural project was also funded directly by UMES under a two-year federal grant awarded to UMES in September 2011 totaling approximately \$200,000. These funds were used to pay for a portion of this employee's UMES salary and the project's operating expenses.
- According to the employee, the LLC had an agreement with a retail vendor for the sale of products grown in the greenhouses built for the agricultural development project and all of the revenue collected by the LLC under the sales agreement was used to pay for the project's operating expenses. The amount of revenue collected by the LLC was not available.
- On behalf of the Foundation, this employee authorized payments to an entity owned by a relative of the employee for construction services related to the agricultural development project. Payments to this entity from October 2013 to April 2014 totaled approximately \$115,000.

The employee violated UMES procedures by not submitting an annual report of potential conflicts of interest for calendar years 2012 and 2013. The UMES *Procedures on Conflict of Interest in Research or Development* state that each employee who holds an interest with an entity engaged in research or development, or an entity having a direct interest in the outcome of research or development must complete a "Research or Development Interest Form" so that potential conflicts of interest can be evaluated. The *Procedures* acknowledge the uniqueness of situations that may involve UMES employees, where certain relationships that would otherwise violate Public Ethics Law may be permitted. In this regard, the portion of the Education Article of the Annotated Code of Maryland pertaining to Higher Education allows employees of a university to serve as an official or employee of an affiliated foundation, to foster fundraising and provide related services for the benefit of the institution. Nevertheless, these relationships must be reported, reviewed, and approved in accordance with the *Procedures*, and a copy of the "Research or Development Interest Form" must be filed with the State Ethics Commission.

Furthermore, UMES did not notify the State Ethics Commission that this employee met the criteria for filing the annual financial disclosure statements and the employee did not file a financial disclosure statement with the State Ethics Commission for calendar year 2012. While the employee filed a financial disclosure statement for 2013 after our inquiries, we noted that certain of the

employee's business interests were not disclosed. For example, the employee's position as the Executive Director of the Foundation was not disclosed, nor was the employee's interest in the LLC. State Ethics Law generally requires employees who are grade 16 or above to prepare and submit a financial disclosure statement to the State Ethics Commission covering the calendar year immediately preceding the year of filing, within 30 days after appointment to the employee's position and by April 30 every year thereafter. The State Ethics Commission relies on the employing State agency to identify the positions that meet the criteria for filing and to request that the State Ethics Commission add the positions to the financial disclosure filing program.

We discussed this matter with staff at the State Ethics Commission who advised us that, because of the aforementioned exceptions contained in the Education Article, it was not possible to determine if a violation of the Public Ethics Law had occurred without a review by its staff on this matter.

Recommendation 2

We recommend that UMES

- a. immediately refer this matter to the State Ethics Commission, obtain advice as to whether the employee needs to file amended financial disclosure statements for years when certain information was not disclosed, and take appropriate action as directed by the Commission;**
- b. require the employee to immediately comply with the UMES *Procedures* by completing and filing the "Research or Development Interest Form," promptly evaluate the matter, and take appropriate action;**
- c. identify all positions meeting the legal criteria for filing financial disclosure statements, including the position held by this employee, appropriately notify the State Ethics Commission for monitoring purposes, and ensure that its employees file the required statements annually; and**
- d. ensure that other employees, as applicable, comply with the UMES *Procedures*.**

Finding 3

UMES disbursed federal funds totaling \$385,000 to its affiliated Foundation for purposes inconsistent with applicable federal regulations.

Analysis

UMES disbursed certain federal funds to its affiliated Foundation which, according to applicable federal regulations, was inappropriate because the funds were not used for certain specified purposes. Specifically, at the request of the

aforementioned management employee who also served as the Executive Director of the Foundation, UMES used Revolving Loan Fund (RLF) revenue as the source of funding for 2 of the 15 grant payments made to the Foundation during the period from January 2011 through January 2014. The two payments were made in July 2013 and January 2014 and totaled \$385,000.

In the 1990s, UMES received federal funds totaling approximately \$4.3 million from the U.S. Department of Commerce - Economic Development Administration to establish the RLF to provide loans to local businesses for development and growth. According to federal regulations, RLF income (interest and fees paid on the loans) must be placed in the RLF capital base and used for future loans or to cover eligible and reasonable administrative costs associated with RLF operations. The grant payments to the Foundation using these funds violated federal regulations since the funds were not used for either of these purposes. Consequently, UMES' use of the funds could result in federal fiscal sanctions, including the suspension or termination of the RLF.

Recommendation 3

We recommend that UMES

- a. spend federal funds consistent with the applicable federal regulations, and**
- b. seek reimbursement from the Foundation for the aforementioned grant payments and deposit these funds into the RLF account.**

Finding 4

UMES and its affiliated Foundation did not comply with certain USM Board of Regents' policies.

Analysis

UMES and its affiliated Foundation did not comply with certain USM Board of Regents' policies. UMES and the Foundation are required to comply with the Board of Regents' *Policy on Affiliated Foundations* and *Policy on Business Entities*. However, our review disclosed that UMES did not comply with certain requirements of these policies.

- Resources provided to the Foundation by UMES were not accurately disclosed in the annual agreements between UMES and the Foundation. UMES assigned one employee to carry out the functions of the Foundation as its Executive Director and provided administrative office space and the use of facilities. According to the Board of Regents' *Policy on Affiliated Foundations*, although the Foundation is not required to reimburse UMES for

these resources, the resources must be properly quantified and included in the annual agreements. Our review of the agreements and the financial statements for fiscal years 2011 to 2013 disclosed that the annual staff resources received from UMES were underreported by approximately \$60,000 each year, and non-staff resources were not quantified and included in the agreements, as required.

- The Foundation engaged in activities, including the administration of research grants, which potentially were in conflict with the role and mission of USM and its institutions, without obtaining proper approval. For example, in June 2013, the Foundation was awarded a \$300,000 grant from the Maryland Energy Administration for the development of clean energy generation technologies—a project that could be considered within the scope of the mission of a research institution, such as UMES. Consequently, instead of supporting research at UMES, the Foundation may be in competition for the grant funding. The Board of Regents' *Policy on Affiliated Foundations* prohibits foundations from conducting activities that would be within the scope of the mission of USM or any of its institutions, except with the express, prior approval of the President of the institution, with a letter of justification to the Chancellor of USM documenting the reasons why the foundation is conducting these activities.
- UMES did not obtain certain required reports from the Foundation for fiscal year 2013 until we requested them in February 2014 and certain other reports had not been obtained. The Board of Regents' *Policy on Affiliated Foundations* requires the foundations to submit certain reports to the President of the institutions within 120 days after the close of USM's fiscal year. This includes, but is not limited to, annual financial audit reports, a list of all state and federal grants and contracts managed by the foundation, and an annual report of the foundation's major activities. These reports, which UMES subsequently obtained after our request, must also be submitted to the Legislative Reference Office by the Chancellor within 180 days of USM's fiscal year end. In addition, certain other reports required by the *Policy* were not submitted by the Foundation for fiscal years 2011, 2012, and 2013. During these years, for example, the Foundation did not provide a list of Foundation Officers and Directors and a list of USM employees who received compensation or other payments from the Foundation during the fiscal year and the amount of the payments.
- Since the inception of the Foundation, UMES had not prepared and submitted to the Chancellor a five-year business plan which should include, in part, the financial relationship between the business entity and UMES and an

evaluation of whether the business entity met performance indicators recommended to or adopted by the Board of Regents. The Board of Regents' *Policy on Business Entities* requires the President of the institution to submit updated five-year plans to the Chancellor within 120 days after the end of USM's fiscal year.

Recommendation 4

We recommend that UMES and its affiliated Foundation comply with the requirements contained in the Board of Regents' policies. Specifically, we recommend that UMES

- a. accurately disclose the value of staff and non-staff resources provided to the Foundation in its annual agreements;**
- b. obtain proper approvals for Foundation activities that would be considered within the role and mission of USM and its institutions;**
- c. obtain all of the required annual reports and submit them to the USM Chancellor, as required; and**
- d. prepare and submit a five-year business plan to the USM Chancellor, as required.**

Student Accounts Receivable

Finding 5

UMES had not established proper controls over financial aid awards, certain non-cash credits, and changes to student residency status.

Analysis

Sufficient internal controls had not been established to ensure the propriety of financial aid awards and certain non-cash credits posted to student accounts. In addition, reclassifications of student residency were not always supported.

- UMES did not independently verify certain financial aid awards and related adjustments posted to student accounts for propriety. Award amounts were based on various eligibility criteria and student financial data. UMES conducted a review each semester of financial data submitted by approximately 200 students to ensure that the data were accurately reported. However, the employee who generated the report of students subject to review was also responsible for modifying student financial awards in the automated system. Additionally, the review did not ensure that the amount of certain financial aid awards, including any adjustments, was accurately posted and authorized by supervisory personnel. For example, the review did not ensure that Honors scholarship awards were supported by approved Scholarship

Authorization Forms. Similar situations were commented upon in our preceding audit report. According to UMES records, during fiscal year 2013, financial aid awarded to students, including grants and scholarships, totaled approximately \$60.9 million.

- Non-cash credit adjustments posted to student accounts that related to housing and board charges were not adequately reviewed to ensure their propriety. Although there was an independent review of these non-cash credit adjustments, the review did not include a verification of the credits to source documents. As a result, unauthorized or inaccurate non-cash credit adjustments could be made without detection. According to UMES records, housing and board non-cash credit adjustments processed in fiscal year 2013 totaled approximately \$2.8 million.
- Reclassifications of student residency status were not always supported and approved. Our test of 15 residency reclassifications from out-of-state to in-state status made during fiscal years 2013 and 2014, for both undergraduate and graduate students, disclosed that UMES could not provide adequate documentation to support 3 reclassifications. The Board of Regents' *Policy on Student Classification for Admission and Tuition Purposes* requires that a student provide evidence of his or her residency status, such as a valid Maryland driver's license. Additionally, UMES policy requires that changes to a student's residency status be subject to the review and approval of the Residency Committee. Accurate student residency status determinations are critical because of the significant differences between in-state and out-of-state student tuition rates. For example, full-time undergraduate tuition and fee charges for the spring 2013 semester totaled \$3,357 for Maryland residents and \$7,425 for nonresidents, a difference of \$4,068, per semester. According to UMES records, a total of 84 residency status changes were processed during fiscal year 2013. Upon further investigation, UMES was later able to determine the reclassifications were proper.

Recommendation 5

We recommend that UMES

- a. ensure that financial aid awards are selected and reviewed by independent personnel who do not have the capability to modify student awards in the system;**
- b. ensure that the calculation and authorization of the selected financial aid awards are reviewed and supported by appropriate documentation (repeat);**
- c. ensure that non-cash credit adjustments related to housing and board charges are verified to source documents; and**

- d. **maintain adequate documentation supporting student residency reclassifications, as required by USM policy, and ensure that all changes are subject to review and approval by the Residency Committee.**

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

Finding 6

UMES did not have adequate internal controls to ensure the timely referral of all delinquent student accounts to the Department of Budget and Management – Central Collection Unit (CCU).

Analysis

UMES did not establish proper controls to ensure all delinquent student accounts were referred to CCU in a timely manner. Specifically, one employee was responsible for identifying delinquent accounts in the student accounts receivable system and submitting these accounts to CCU without an independent review to ensure that all eligible accounts were submitted timely. Our test of 15 delinquent student accounts, which totaled approximately \$123,000, disclosed that UMES did not always take appropriate collection action relating to outstanding student account balances as required by CCU regulations, as modified for UMES. Four accounts submitted to CCU, with outstanding balances totaling approximately \$31,000, had not been referred to CCU for periods ranging from 4 months to 13 months beyond the required transfer date. In addition, two of the four student accounts with delinquent balances totaling \$13,000 were also allowed to register for classes in subsequent semesters. UMES could not provide us with documentation that the outstanding balances were covered by a USM policy exemption (such as pending financial aid).

According to UMES' records, the balance of the student accounts receivable totaled approximately \$2.3 million as of June 30, 2013, of which \$1.8 million was outstanding for over 120 days. During fiscal year 2013, delinquent accounts totaling \$1.8 million were referred to CCU.

The USM Board of Regents' *Policy on Payment of Tuition and Fees* states that tuition and fees are due and payable in full by the due date, unless the student is covered by a specific exemption, such as pending financial aid. The *Policy* further requires that appropriate administrative action (such as barring class attendance) be initiated if timely payment is not received. CCU regulations, as amended for UMES, require that each semester's delinquent accounts be transferred to CCU at the end of the final registration period of the subsequent semester.

Recommendation 6

We recommend that UMES

- a. establish procedures requiring independent reviews to ensure all eligible student accounts are referred to CCU in a timely manner;**
- b. transfer all delinquent accounts to CCU on a timely basis, as required; and**
- c. not permit students with outstanding account balances to register for subsequent semesters unless the student qualifies for an exemption as specified in the Board of Regents' *Policy*.**

Information Systems Security and Control

Background

UMES' Administrative Computing and Information Technology units manage the development, maintenance, and support of UMES' information technology infrastructure including all related networking, telecommunications, and business information systems. These units maintain a UMES campus-wide network, supporting both administrative and academic operations. They also provide support for the student information system, the financial management systems, and an important document management system. These units also operate an integrated administrative and academic computer network, which provides connections to multiple servers used for administrative and academic purposes. The UMES network also includes separate email and file servers and firewalls. In addition, UMES connects to the Maryland Research and Educational Network (MDREN) which enables UMES to connect with the Internet and other USM institutions.

Finding 7

UMES did not ensure that capabilities assigned to individuals on the financial management systems were adequately restricted.

Analysis

UMES did not ensure that capabilities assigned to individuals on the financial management systems were adequately restricted over recordation of cash receipt, student account, and financial aid transactions. Our review of system capabilities assigned to 84 active users disclosed that some users were assigned unnecessary or inappropriate system capabilities.

- Our review of 13 critical functions related to cash receipts determined that 4 of the system users were assigned inappropriate access to one or more of the critical functions to perform their assigned duties. For example, 2 of these

users could apply payments to student accounts and void receipts on the cash receipts system.

- Our review of 14 critical functions related to student accounts determined that 19 of the system users did not need access to one or more of the critical functions, such as processing non-cash credits, to perform their job duties.
- Our review of 3 critical functions related to student financial aid determined that 4 of the system users were assigned inappropriate access to one or more of the critical functions to perform their assigned duties. For example, 2 users could add financial aid awards to the system and disburse the awards to students.

This unnecessary or inappropriate access was caused, in part, by the insufficient review of security reports of system access capabilities. Specifically, UMES department supervisors periodically generated and reviewed security reports of the access capabilities assigned to users that enable those employees to perform critical functions. However, these reports only displayed the access capabilities assigned to the employees working in each respective department. Therefore, the supervisors reviewing these reports could not identify and correct improper access capabilities related to their respective departments that were assigned to employees of other departments.

USM's *Information Technology Security Guidelines* specify that institutions are responsible for ensuring that access rights reflect employee status, including changes in employee status. In addition, institutions must segregate the functions of system administration, programming, processing, and authorizing business transactions, and security administration to ensure the appropriate separation of duties for system users.

Recommendation 7

We recommend that UMES

- a. restrict user access capabilities for critical functions to those employees who require such capabilities to perform their assigned job duties, and**
- b. periodically generate and review computer system security reports that include all users who are assigned access capabilities to perform critical functions in the respective departments and correct instances of improper access.**

Finding 8**Controls over UMES accounts and passwords were not sufficient to properly protect this information.****Analysis**

Controls over UMES accounts and passwords were not sufficient to properly protect this information.

- An unencrypted master file of accounts and related passwords, which contained in clear text, the userids and passwords for all critical UMES systems (for example, databases, servers, network devices) was maintained on a local workstation. Unauthorized disclosure of the contents of this file could compromise the entire UMES enterprise. We were advised that UMES deleted this file upon notification of this condition.
- Nine employees had access to a second copy of the aforementioned master file and another file containing many critical administration userids and passwords and had knowledge of the passwords to open and read these files. As a result, these nine employees had inappropriate access to certain critical credentials (beyond their job duties). With access to these critical credentials, these nine employees could inappropriately modify production data for which they had no responsibilities.
- An additional 13 employees had unnecessary read and modify access to a shared folder on a server which contained a third copy of the aforementioned master file. Although this copy was password protected, these 13 employees could copy this file and then go offline (which would not be subject to any lockout provisions) and attempt to “guess” the password (using automated tools) and thereby gain unauthorized administrative access to all UMES systems.

Critical login credentials should be kept confidential and only available to employees who require such access for their job duties. The existence of several copies of these account and password files creates an unnecessary risk that the credentials of powerful accounts associated with the various critical UMES systems could be exposed.

The *USM Guidelines in Response to the State’s IT Security Policy* states that passwords must not be stored in clear text and that authorized users are responsible for the security of their passwords and accounts.

Recommendation 8

We recommend that UMES

- a. restrict access to account and password files to only those employees who require such access so that employees do not have access to logon credentials for systems and devices not under their control, and**
- b. password protect these files with strong passwords that are periodically changed.**

Finding 9

UMES inappropriately stored sensitive personally identifiable information in clear text.

Analysis

UMES inappropriately stored sensitive personally identifiable information (PII) in clear text.

- Full social security numbers of current and former students and employees along with associated names and addresses were stored in unencrypted form in a critical production database. We determined that 117,510 distinct, unencrypted social security numbers were stored in this database.
- Documents relating to human resources, admissions, registration, and financial aid contained the names and distinct full social security numbers of 68,513 current and former students and employees. These documents were retained in an unencrypted manner on a document management server. In addition, these documents were stored in a production database table and were not encrypted.
- Applications that accessed the databases which contained the aforementioned 117,510 and 68,513 records displayed the full social security number to application users. These displays were not designed to show truncated or masked social security numbers but rather the full numbers.

This PII, which is commonly sought by criminals for use in identity theft, should be protected by appropriate information system security controls. The USM *Guidelines in Response to the State's IT Security Policy* requires that institutions implement measures to protect confidential information from disclosure. Specifically, institutions “must outline the protection measures that the institution uses to protect nonpublic information at rest or in transit across networks.” The guidelines define these protection measures as including “the deletion of

unneded nonpublic information, the encryption of nonpublic information, or other equally secure safeguards.”

Recommendation 9

We recommend that UMES

- a. encrypt all database tables containing PII;**
- b. retain the documents containing PII, in the document management server, in an encrypted volume; and**
- c. mask or truncate social security numbers from displays used by application users who do not need access to full social security numbers.**

Finding 10

The UMES internal network was not adequately secured.

Analysis

The UMES internal network was not adequately secured.

- Numerous computer labs throughout UMES had unnecessary network level access to critical UMES administrative resources. UMES has a project underway to logically segment and properly restrict network traffic from these computer labs. However, at the time of our audit only 6 of 64 labs had been remediated. Although we did not verify UMES’ assertions, we were advised that UMES completed the network segmentation project in July 2014 and properly segmented all UMES labs.
- Various other unnecessary and insecure connections were allowed to portions of the UMES internal network, thereby placing various network devices at risk. For example, we noted that any guest wireless network user had unnecessary network level access to any UMES device over several frequently used ports.
- According to UMES records, host-based intrusion protection systems (HIPS) were utilized on 16 servers that processed encrypted traffic. However, we identified 71 internal network addresses which could receive encrypted traffic and did not have HIPS coverage. The absence of HIPS coverage for traffic to these network addresses created security risks in that UMES’ network based intrusion detection prevention system cannot read encrypted traffic flowing into its network whereas HIPS can read and analyze such traffic and protect critical servers from malicious traffic.

Recommendation 10

We recommend that UMES

- a. restrict access, at the network level, to key administrative resources to only those entities requiring such access; and**
- b. perform a documented review and assessment of its network security risks, identify how HIPS coverage should be best applied to its network, and implement such coverage.**

Finding 11

Procedures for installing and monitoring anti-malware software on network computers need improvement.

Analysis

Procedures for installing and monitoring anti-malware software on network computers need improvement.

- UMES personnel advised us that anti-malware software was not installed on approximately 100 computers with a specific operating system due to performance issues. As a result of this condition, these computers were not adequately protected from malware risks.
- UMES lacked assurance that malware protection software was installed on many of its computers. As of March 2014, the anti-malware software console dashboard reported the UMES network included approximately 350 additional computers without anti-malware software. We were advised by UMES IT personnel that this count of unmanaged computers was unreliable because the source information included certain decommissioned or renamed computers. As a result of these conditions, UMES lacked assurance that many UMES computers had up-to-date anti-malware software installed.

The USM *Guidelines in Response to the State IT Security Policy* require that standard virus protection programs be installed, updated, and maintained on all desktops and laptops as well as servers.

Recommendation 11

We recommend that UMES

- a. ensure that anti-malware software is installed on all UMES computers,**
- b. remove decommissioned and renamed computers from its source listing of active computers so that the anti-malware software console dashboard can accurately report the malware protection status for the population of UMES computers, and**

- c. **use the anti-malware software console dashboard to monitor all UMES workstations and servers to ensure that all such devices are properly protected and that all signature updates are promptly installed.**

Cash Receipts and Student Funds

Finding 12

UMES lacked accountability and control over its collections and had not reconciled certain student spending account balances.

Analysis

UMES did not establish sufficient accountability and control over its collections and had not reconciled certain student spending account balances. According to UMES' records, during fiscal year 2013, collections totaled approximately \$19.4 million, including approximately \$6.8 million in credit card receipts and approximately \$1.6 million in student spending account funds.

- One employee in the Bursar's office, who was responsible for processing voids on the cash register system, also had access to the related cash receipts and had the ability to process non-cash credit adjustments to student accounts receivable records. In addition, independent verifications were not adequately performed to ensure that all collections were deposited. Specifically, the employee responsible for performing the deposit verifications did not use the initial record of collections (cash register reports). Rather, the deposit was verified to a cash receipt log maintained by the employee who prepared the deposit.
- Two individuals had improper administrative access to an online banking system used by UMES to process certain credit card collections. The access assigned to these individuals gave them the capability to change the bank account where the collections were deposited. One of these individuals retained administrative access to the system for four months after retiring from UMES. Additionally, as of March 2014, UMES had not reconciled its record of credit card collections processed with the receipt of the related funds in the State's bank account maintained by the State Treasurer's Office (STO) since May 2011. Furthermore, independent source documentation was not used when these reconciliations were last prepared. Specifically, for certain credit card collections, the credit card transaction report used to reconcile to the STO balance was prepared by one of the employees with the improper capability to change the bank account where the payments were deposited.

Consequently, UMES lacked assurance that all credit card receipts recorded in its automated system were received by the STO.

- The aggregate balance of individual student spending accounts had not been reconciled with the fund account balance recorded in UMES' records from inception until November 2013. At that time, the reconciliation had an unexplained difference of \$66,000 where UMES' fund account balance (\$401,000) exceeded the total of the individual student accounts (\$335,000). Furthermore, this reconciliation had not been reviewed and approved by supervisory personnel. As a result, UMES lacked assurance that all transactions affecting the individual student accounts were accurately recorded. UMES issues multi-functional student identification cards that also act as pre-paid debit cards. Students may deposit funds into their individual spending accounts, allowing them to make cash-free purchases at approved campus locations.

The Comptroller of Maryland's *Accounting Procedures Manual* dictates that there be segregation of the cash receipts handling duties from the cash receipts and accounts receivable record keeping functions. The *Manual* also states that the reconciliation of cash receipts to deposit be performed using source documentation by an employee independent of the cash receipts functions. According to industry best practices, as described by the Department of Information Technology's *State Information Technology Access Control Standards*, system access should be limited to the appropriate authorized individuals and be properly controlled. According to the USM's *Accounting Practices*, for cash held at the STO and student spending account balances, reconciliations must be completed, at least quarterly, that identify and document the items in either the detail records, or the summary balances, as applicable. In addition, the *Accounting Practices* require independent review and approval of the reconciliations, and any necessary adjustments.

Recommendation 12

We recommend that UMES

- a. ensure that employees with non-cash credit and void capabilities do not have access to the related cash receipts and that deposits are verified to the initial record of the collections;**
- b. periodically review the online banking system access capabilities and restrict such access to employees who need it for their job duties;**
- c. ensure that the credit card transaction report used in the reconciliation is prepared by an employee who does not have access to change the bank account where the funds are deposited;**

- d. reconcile its record of credit card collections processed with the receipt of the related funds by the STO, reconcile the total of its individual student spending accounts with the fund account balance recorded in its records, at least quarterly, and investigate and resolve any differences identified by the reconciliations; and
- e. ensure the reconciliations are reviewed and approved by independent supervisory personnel.

Contract Procurement and Monitoring

Finding 13

UMES' execution of certain lease agreements and contract extensions did not comply with USM's policies, and UMES did not adequately monitor certain vendors to ensure compliance with contract terms.

Analysis

UMES' execution of certain lease agreements and contract extensions did not comply with USM and UMES policies. In addition, UMES did not adequately verify a certain vendor's billings for propriety and did not monitor its bookstore contractor to ensure that sales commissions it remitted were in compliance with contract terms.

- UMES executed lease agreements for student housing facilities without obtaining the approval of USM's Board of Regents, as required for certain lease agreements in excess of \$500,000. Since July 2009, UMES has entered into annual agreements with two property owners for the leasing of off-campus housing facilities to supplement its on-campus student housing facilities. In fiscal year 2014, the value of these two agreements totaled \$1.5 million and \$564,000, respectively.
- UMES used a fuel contractor to obtain fuel without obtaining competitive bids. As a result, there was a lack of assurance that UMES received the best available price. In addition, UMES did not verify the fuel rates billed by the vendor were in accordance with the contract. According to the State's records, payments made to this vendor in fiscal year 2013 totaled approximately \$890,000.
- UMES did not verify sales reports, which were used to calculate monthly commission payments made by the operator of its bookstore. In this regard, the vendor paid a commission to UMES based on a percentage of total store (gross) sales. However, UMES did not verify reported sales, for example, by

utilizing operating statements prepared by an independent certified public accounting firm, or obtaining cash register reports to ensure that the vendor had remitted the appropriate amount of sales commissions, as provided by the contract. UMES contracted with a vendor to operate its campus bookstore for the term March 19, 2012 through March 19, 2013, with ten one-year renewal options. The contract requires that UMES be paid a guaranteed annual fee of \$225,000 or a percentage of gross sales, whichever is greater. The vendor reported sales during the first year totaling \$1.96 million and, accordingly, paid the guaranteed annual fee of \$225,000 to UMES.

USM's *Policy on Acquisition, Disposition, and Leasing of Real Property* requires approval by the Board of Regents for leases in which an Institution is the lessee and the consideration is expected to exceed \$500,000 in any year. Additionally, USM's *Procurement Policies and Procedures* require a formal written procurement process, such as competitive sealed bidding, for procurements that are reasonable expected to exceed \$100,000.

Recommendation 13

We recommend that UMES

- a. obtain approval from USM's Board of Regents for all lease agreements in excess of \$500,000, including the aforementioned student housing leases;**
- b. comply with USM's *Procurement Policies and Procedures* by completing a formal written procurement process for procurements exceeding \$100,000, including the aforementioned contract for fuel purchases;**
- c. ensure that prices paid for goods and services are in accordance with the approved contract prices; and**
- d. verify reported gross sales from its bookstore contractor to ensure the proper fees are remitted, as required by the contract terms.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland Eastern Shore (UMES) for the period beginning August 9, 2010 and ending December 1, 2013. 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 UMES' 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 the affiliated foundation, cash receipts, student accounts receivable, purchases and disbursements, student financial aid, and payroll. We also determined the status of the findings contained in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of UMES' 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 UMES' financial system for the purpose of testing 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.

Our audit did not include certain support services provided to UMES by the USM Office (such as endowment accounting) and by the University of Maryland, College Park (such as processing vendor payment transmittals and payroll). These support services are included within the scope of our audits of the USM Office and the University of Maryland, College Park, respectively. In addition, our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of UMES' compliance with federal laws and regulations pertaining to those programs 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.

UMES' 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 related to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect UMES' 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 UMES that did not warrant inclusion in this report.

The response from the USM Office, on behalf of UMES, 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

November 4, 2014

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, MD 21201

1807
University of Maryland,
Baltimore

1856
University of Maryland,
College Park

1865
Bowie State University

1866
Towson University

1886
University of Maryland
Eastern Shore

1898
Frostburg State University

1900
Coppin State University

1925
Salisbury University

1925
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 Eastern Shore
Period of Audit: August 9, 2010 through
December 1, 2013

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 of Maryland Eastern Shore. Our comments refer to the individual items in the report.

Sincerely yours,

William E. Kirwan
Chancellor

Enclosures

cc:

Dr. Juliette B. Bell, President, UMES
Dr. Ronnie Holden, Vice President for Administrative Affairs, UMES
Mr. James L. Shea, Chair, Board of Regents
Mr. Anwer Hasan, Chairman, MHEC
Ms. Catherine Shultz, Acting Secretary of Higher Education, MHEC
Mr. Robert L. Page, Associate Vice Chancellor for Financial Affairs, USM Office
Mr. David Mosca, Director of Internal Audit, USM Office

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University Affiliated Foundation

Finding 1

UMES did not exercise effective oversight of grants awarded to the Foundation.

Recommendation 1

We recommend that UMES

- a. ensure that the UMES employee(s) who also performs managerial functions on behalf of the Foundation is not permitted to represent both UMES and the Foundation in business transactions conducted between them;**
- b. ensure that the scope of the grant agreements includes specific deliverables or accomplishments, a time period for the performance of the grant project, and detailed project requirements;**
- c. obtain the required progress reports that would enable UMES to determine if deliverables were achieved;**
- d. obtain and review supporting documentation from the Foundation for all grant expenditures, including the aforementioned \$191,000, to ensure grant funds are properly accounted for and spent in accordance with the grant agreement, and recover all funds not appropriately spent; and**
- e. consult with USM's Office of Internal Audit to determine the necessity of conducting an expanded review of grant funds advanced to the Foundation to include expenditure activity prior to January 2011.**

University response

The University agrees with this recommendation.

- a. Effective immediately, if there will be a grant award to the Foundation, the Director of Sponsored Programs will be responsible for executing the grant agreement and monitoring of the related grant on behalf of UMES.
- b. If there should be any grants awarded, the Director of Sponsored Programs will be responsible for ensuring that the scope of the grant agreements includes specific deliverable or accomplishments, including time frame for performance effective immediately.
- c. If there should be any grants awarded, the Director of Sponsored Programs will ensure that progress reports are submitted to enable UMES to determine if deliverables are being achieved effective with new awards.

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- d. All expenditures not in compliance will be appropriately identified by March 31, 2015 and if necessary, a repayment plan established by June 30, 2015.
- e. UMES will consult with the USM's Office of the Internal Audit to determine its feasibility of expanding the review of funds disbursed to the foundation to include the period prior to January 2011 within thirty days from receiving the audit report.

Finding 2

A UMES management employee was involved in business activities that were not formally disclosed to UMES as required and that raise questions regarding a potential conflict of interest. In addition, this employee did not always file financial disclosure statements with the State Ethics Commission.

Recommendation 2

We recommend that UMES

- a. immediately refer this matter to the State Ethics Commission, obtain advice as to whether the employee needs to file amended financial disclosure statements for years when certain information was not disclosed, and take appropriate action as directed by the Commission;
- b. require the employee to immediately comply with the UMES *Procedures* by completing and filing the "Research or Development Interest Form," promptly evaluate the matter, and take appropriate action;
- c. identify all positions meeting the legal criteria for filing financial disclosure statements, including the position held by this employee, appropriately notify the State Ethics Commission for monitoring purposes, and ensure that its employees file the required statements annually; and
- d. ensure that other employees, as applicable, comply with the UMES *Procedures*.

University response

- a. UMES will immediately refer this matter to the State Ethics Commission, obtain advice as to whether the former employee needs to file an amended financial disclosure statement for years when certain information was not disclosed and will take appropriate action as directed by the Commission.

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- b. UMES will request the former employee to immediately comply with UMES procedures by completing and filing the “Research or Development Interest Form.” UMES will promptly evaluate the matter and take appropriate action.
- c. UMES has already taken action in notifying the State Ethics Commission in relation to the employee referenced and all other employees as appropriate upon the start of their service. UMES and the State Ethics Commission reviewed the entire employee roster, approximately two years ago, to ensure appropriate personnel were directed to prepare an annual Financial Disclosure Statement. Since that review, all newly hired individuals are reviewed accordingly.
- d. UMES will immediately ensure that other employees, as applicable, comply with UMES procedures.

Finding 3

UMES disbursed federal funds totaling \$385,000 to its affiliated Foundation for purposes inconsistent with applicable federal regulations.

Recommendation 3

We recommend that UMES

- a. **spend federal funds consistent with the applicable federal regulations, and**
- b. **seek reimbursement from the Foundation for the aforementioned grant payments and deposit these funds into the RLF account.**

University response

- a. UMES misinterpreted the federal regulations and disbursed these funds as grant funds to the Foundation. Effective immediately, the use of these federal funds will be in full compliance with applicable federal regulations and spent accordingly.
- b. UMES has informed the granting agency of the misinterpretation in the disbursement of these funds and reimbursement from the Foundation. A resolution and timetable for the return of funds will be agreed upon as soon as possible.

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Finding 4

UMES and its affiliated Foundation did not comply with certain USM Board of Regents' policies.

Recommendation 4

We recommend that UMES and its affiliated Foundation comply with the requirements contained in the Board of Regents' policies. Specifically, we recommend that UMES

- a. accurately disclose the value of staff and non-staff resources provided to the Foundation in its annual agreements;**
- b. obtain proper approvals for Foundation activities that would be considered within the role and mission of USM and its institutions;**
- c. obtain all of the required annual reports and submit them to the USM Chancellor, as required; and**
- d. prepare and submit a five-year business plan to the USM Chancellor, as required.**

University response

- a. UMES agrees with this recommendation and will fully comply with future reports.
- b. UMES fully agrees with the intent of this recommendation and will comply as appropriate for future grants.
- c. UMES agrees with this recommendation and will comply for future USM Board of Regents report requirements.
- d. UMES will comply as required for USM Board of Regents requirements for business entities. Its most recent required report was done as required.

Student Accounts Receivable

Finding 5

UMES had not established proper controls over financial aid awards, certain non-cash credits, and changes to student residency status.

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Recommendation 5

We recommend that UMES

- a. ensure that financial aid awards are selected and reviewed by independent personnel who do not have the capability to modify student awards in the system;**
- b. ensure that the calculation and authorization of the selected financial aid awards are reviewed and supported by appropriate documentation (repeat);**
- c. ensure that non-cash credit adjustments related to housing and board charges are verified to source documents; and**
- d. maintain adequate documentation supporting student residency reclassifications, as required by USM policy, and ensure that all changes are subject to review and approval by the Residency Committee.**

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

University response

- a. Effective July 1, 2014, the financial aid awards selected for review will be determined by the Assistant Vice President for Administrative Affairs who will generate the report of students based on the created query and make random selections of students for review. The selection for review will be sent to the Office of Student Financial Aid departmental auditor. This will ensure that the generating of the report, the random selection and the review are independent of any university personnel that have capability to modify student awards in the system. The University will conduct its second review for the 2013-2014 academic year to ensure there is no variance by July 31, 2014.
- b. After the finding from the 2010 legislative audit, the Office of Student Financial Aid counselor who performs the function of internal auditor was conducting a review of the sample selected by the Assistant Vice President for Administrative Affairs of all awards originated by the Office of Student Financial Aid such as Title IV Pell grant, loans, etc. and ensuring verification was completed properly. The internal review of awards was inclusive of any award originated by the Office of Student Financial Aid. After discussions with the legislative auditor, the review/audit process will be expanded to include all student awards, including adjustments, to ensure that the awards and any adjustments are supported by appropriate

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documentation (i.e. – departmental scholarships, athletic awards, etc.). The award/audit form has been reviewed and revised to include the review of the enhanced items and to assist the OSFA internal auditor in conducting a more thorough review, as suggested. As noted above, the OSFA internal counselor performing the function of auditor will be conducting an additional review for the 2013-2014 academic year to ensure there is no variance.

- c. In our response to the 2010 OLA audit, we stated that we would obtain the support documentation from the original approver on our campus. Following the 2010 OLA audit, UMES established an independent review of these non-cash credit adjustments; however it was not verifying credits to the source documents from students as opposed to the approver as previously specified. Following a meeting with the legislative auditor, the procedure has been modified to include the verification of the source documentation from the originator (student). This verification process has been completed through June 2014 in the manner suggested by the auditor and is maintained monthly.
- d. UMES agrees with this recommendation and will maintain appropriate supportive documentation as ensure all future changes are made by the Residency Committee.

Finding 6

UMES did not have adequate internal controls to ensure the timely referral of all delinquent student accounts to the Department of Budget and Management – Central Collection Unit (CCU).

Recommendation 6

We recommend that UMES

- a. **establish procedures requiring independent reviews to ensure all eligible student accounts are referred to CCU in a timely manner;**
- b. **transfer all delinquent accounts to CCU on a timely basis, as required;**
and
- c. **not permit students with outstanding account balances to register for subsequent semesters unless the student qualifies for an exemption as specified in the Board of Regents' *Policy*.**

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University response

- a. UMES is in agreement with the recommendation of requiring independent reviews to ensure all eligible student accounts are accurately and timely referred to CCU. An independent reviewer from the Office of the Vice President for Administrative Affairs will run the report of potential eligible accounts and will compare this report to the actual submission data.
- b. UMES agrees with this recommendation. It has been discovered that a flaw exists with the query that was developed to identify all accounts to be transferred. We have found that if a student enrolls for a semester and does not attend or confirm attendance, the query does not identify that person until the following semester. That query has been corrected for the appropriate implementation for the Fall 2014 semester.
- c. UMES agrees with this recommendation. We will ensure that students with outstanding balances are allowed to register only if the student qualifies for an exemption as specified in the Board's policy effective immediately.

Information Systems Security and Control

Finding 7

UMES did not ensure that capabilities assigned to individuals on the financial management systems were adequately restricted.

Recommendation 7

We recommend that UMES

- a. **restrict user access capabilities for critical functions to those employees who require such capabilities to perform their assigned job duties, and**
- b. **periodically generate and review computer system security reports that include all users who are assigned access capabilities to perform critical functions in the respective departments and correct instances of improper access.**

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University response

- a. UMES accepts the recommendation, and will remove unnecessary access assigned to the accounts identified.
- b. UMES will enhance the existing security review and approval process such that reports used by security approvers cover all users not just limited to the approver's department. All work has been completed.

Finding 8

Controls over UMES accounts and passwords were not sufficient to properly protect this information.

Recommendation 8

We recommend that UMES

- a. **restrict access to account and password files to only those employees who require such access so that employees do not have access to logon credentials for systems and devices not under their control, and**
- b. **password protect these files with strong passwords that are periodically changed.**

University response

- a. UMES accepts the recommendation. The non-encrypted file containing passwords was immediately deleted anywhere it existed. UMES purchased an enterprise password manager to maintain secure passwords. It provides a much more secure and segmented storage of critical password information, ensuring that passwords are only available to employees that require access.
- b. UMES also has password policies on these files that ensure periodic password changes and two-factor authentication.

All work has been completed.

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Finding 9

UMES inappropriately stored sensitive personally identifiable information in clear text.

Recommendation 9

We recommend that UMES

- a. encrypt all database tables containing PII;**
 - b. retain the documents containing PII, in the document management server, in an encrypted volume; and**
- mask or truncate social security numbers from displays used by application users who do not need access to full social security numbers.**

University response

- a. UMES accepts the recommendation. We will encrypt all tables containing PII with the exception of Financial Aid due to business process reasons.
- b. UMES will encrypt all volumes containing PII in document management storage.
- c. UMES will mask social security numbers within the PeopleSoft system with the exception of critical Financial Aids pages where security further limits those that have access.

The above encryption steps of PII will be completed by July 2015.

Finding 10

The UMES internal network was not adequately secured.

Recommendation 10

We recommend that UMES

- a. restrict access, at the network level, to key administrative resources to only those entities requiring such access; and**
- b. perform a documented review and assessment of its network security risks, identify how HIPS coverage should be best applied to its network, and implement such coverage.**

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University response

- a. UMES accepts the recommendation, and will apply the appropriate restrictions to the identified systems providing a “least privilege” security posture. We have added appropriate rules to prevent blanket access to unrequired systems and removed all stale rules that were identified in the audit. We have an existing quarterly process in place to audit our firewall rule sets.
- b. UMES is currently working on a pilot deployment of a HIPS solution. We have deployed HIPS to several desktop systems, and will begin our pilot deployment to servers in fall 2014.

A deployment of HIPS to systems identified in the risk assessment is targeted for August 2016.

Finding 11

Procedures for installing and monitoring anti-malware software on network computers need improvement.

Recommendation 11

We recommend that UMES

- a. **ensure that anti-malware software is installed on all UMES computers,**
- b. **remove decommissioned and renamed computers from its source listing of active computers so that the anti-malware software console dashboard can accurately report the malware protection status for the population of UMES computers, and**
- c. **use the anti-malware software console dashboard to monitor all UMES workstations and servers to ensure that all such devices are properly protected and that all signature updates are promptly installed.**

University response

- a. UMES accepts the recommendation and has worked to ensure 100% anti-virus installation on all systems that are deployed from IT. We created a ‘Desktop Management Team’ that was charged with updating and implementing procedures to ensure all newly built systems receive the anti-virus application before it is installed for the end-user.

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b.&c. UMES has implemented some automated tasks in the anti-virus console that discovers any unmanaged systems daily and attempts to install the software. UMES is working towards creating other automated tasks as well as staff procedures and scheduled tasks to clean up stale records and more closely monitor the anti-virus console for systems that report as unmanaged or not having compliant anti-virus software, as well as systems that do not have updated signatures.

UMES will create the remaining automated tasks and implement staff procedures for monitoring, review and remediation, as well as implement a solution for all UMES computers by September 2015.

Cash Receipts and Student Funds

Finding 12

UMES lacked accountability and control over its collections and had not reconciled certain student spending account balances.

Recommendation 12

We recommend that UMES

- a. ensure that employees with non-cash credit and void capabilities do not have access to the related cash receipts and that deposits are verified to the initial record of the collections;**
- b. periodically review the online banking system access capabilities and restrict such access to employees who need it for their job duties;**
- c. ensure that the credit card transaction report used in the reconciliation is prepared by an employee who does not have access to change the bank account where the funds are deposited;**
- d. reconcile its record of credit card collections processed with the receipt of the related funds by the STO, reconcile the total of its individual student spending accounts with the fund account balance recorded in its records, at least quarterly, and investigate and resolve any differences identified by the reconciliations; and**
- e. ensure the reconciliations are reviewed and approved by independent supervisory personnel.**

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University response

- a. UMES agrees with this recommendation. We currently log all non-student accounts checks daily for tracking purposes. We will further enhance this tracking to include all student accounts checks as well, effective immediately. The Front Desk Account Clerk will open all the mail, log every check received and restrictively endorse the back of the check with the stamp. At that time, the clerk will deliver the checks to the student accounts office for them to process that day in the PeopleSoft System. To enhance reconciliation procedures, our General Ledger Accountant will compare the validated bank deposit slip to the PeopleSoft “Tender by Cashier” reports to ensure the balances are accurate. The General Ledger Accountant will initial each of the “Tender by Cashier” reports and also the white PNC bank deposit slip for proof of review.
- b. UMES agrees with this recommendation and the Director of Auxiliary Enterprises will review every six months effective immediately.
- c. The credit card transaction report will be prepared by an employee who does not have access to change the bank accounts where funds are deposited, effective immediately.
- d. UMES agrees with the finding that the EFT reconciliation was not completed in full each month since May 2011. Our anticipation was to have them completed and up to date by June 30, 2014; however, this was unable to happen due to the time consumed with the implementation of Kuali this calendar year. We expect to have these completed by March of 2015. We will continue to reconcile these on a monthly basis going forward.

The UMES’ individual student spending account will be reconciled to a current status by March 31, 2015. It will be reconciled on a monthly basis. UMES will investigate and resolve any differences by March 31, 2015 and maintain on a monthly basis.

- e. The reconciliations are to be reviewed and approved by the Associate Comptroller.

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Contract Procurement and Monitoring

Finding 13

UMES' execution of certain lease agreements and contract extensions did not comply with USM's policies, and UMES did not adequately monitor certain vendors to ensure compliance with contract terms.

Recommendation 13

We recommend that UMES

- a. obtain approval from USM's Board of Regents for all lease agreements in excess of \$500,000, including the aforementioned student housing leases;**
- b. comply with USM's *Procurement Policies and Procedures* by completing a formal written procurement process for procurements exceeding \$100,000, including the aforementioned contract for fuel purchases;**
- c. ensure that prices paid for goods and services are in accordance with the approved contract prices; and**
- d. verify reported gross sales from its bookstore contractor to ensure the proper fees are remitted, as required by the contract terms.**

University response

- a. UMES agrees with this recommendation. UMES will seek approval from the USM Board of Regents for all lease agreements in excess of \$500,000. However, the Office of the Attorney General reviewed the initial agreement in 2009. The current lease agreement will be taken to USM Board of Regents during the Fall of 2014.
- b. UMES agrees with this recommendation. The University has been operating from the State contract and did not realize it had expired and the State no longer issues contracts for Number 6 fuel oil. A solicitation has already been processed for this heating season. Bids have been received, evaluated and a contract has been awarded. All other procurements over \$100,000 have complied with procurement policies and procedures.
- c. Procurement will obtain the publications that track fuel prices for the submission to the Physical Plant, and the Physical Plant will ensure prices paid for goods and services are in accordance with approved contract prices plus actual costs.

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- d. UMES agrees with this recommendation. Effective July 2014, the bookstore manager is required to provide to the Office of Auxiliary Enterprises the monthly sales register reports for the bookstore operation. These reports will be used to project, compare and access quarterly commissions received.

AUDIT TEAM

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