

Audit Report

**University System of Maryland
University of Maryland Biotechnology Institute**

January 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

January 12, 2010

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the University System of Maryland (USM) – University of Maryland Biotechnology Institute (UMBI) for the period beginning February 3, 2006 and ending June 30, 2009. UMBI's primary purpose is to foster intense scientific research of biotechnology and its application with regard to human, health, marine environment, agriculture, and protein engineering/structural biology.

Our audit disclosed that UMBI reported to the legislative budget committees that statewide indirect cost recoveries of approximately \$113,000 had been reverted to the State's general fund, even though the funds were actually retained. Our audit also disclosed that employee payroll timesheets were not always approved, as required.

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

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The University of Maryland Biotechnology Institute (UMBI) is a non-degree granting institution whose primary purpose is to foster intense scientific research of biotechnology and its application with regard to human health, marine environment, agriculture, and protein engineering/structural biology. Additionally, UMBI trains graduate and post-doctoral students from various University System of Maryland campuses. In order to accomplish its purpose, UMBI operates five independent but interactive research centers: the Center for Advanced Research in Biotechnology, located in Montgomery County; the Center for Biosystems Research, located in College Park; the Center for Marine Biotechnology, the Institute of Fluorescence, and the Medical Biotechnology Center, all located in Baltimore City. The central administrative office for UMBI is also located in Baltimore City at the Christopher Columbus Center. According to UMBI's records, fiscal year 2009 revenues totaled approximately \$51.8 million, which included a State general fund appropriation of approximately \$19.9 million. Those records also indicated that UMBI's expenditures for fiscal year 2009 totaled approximately \$51.8 million.

Reorganization

- In December 2006, the University System of Maryland (USM) Board of Regents approved the transfer of the Institute of Human Virology (IHV) from UMBI to the University of Maryland, Baltimore (UMB), effective July 1, 2007. The scope of this audit includes the activities of IHV prior to the reorganization. The activities relating to IHV subsequent to the reorganization were included in our current audit of UMB.
- On June 19, 2009, the USM Board of Regents approved a plan to disband the institutes and programs of UMBI. The plan anticipates that the reorganization will be completed by July 1, 2010. All institutes and programs of UMBI will be assigned to other USM institutions (such as University of Maryland, College Park; University of Maryland, Baltimore County; and UMB).

According to information provided by USM, by December 31, 2009, several memorandums of understanding will be executed between the USM Board of Regents and the institutions that will address, among other things, allocating UMBI financial, personnel, and physical resources; setting transition timelines

for all tasks; and establishing accountability measures to assess the impact of the reorganization in key areas.

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 August 28, 2006. We determined that these findings were satisfactorily resolved.

Findings and Recommendations

Indirect Cost Recoveries

Finding 1

UMBI inaccurately reported to the legislative budget committees that statewide indirect cost recoveries totaling approximately \$113,000 were reverted to the State General Fund.

Analysis

Indirect cost recoveries included in the annual budget requests submitted to the legislative budget committees were not accurate. Specifically, for fiscal years 2006 through 2008, UMBI reported to the budget committees that statewide indirect cost recoveries, collectively totaling approximately \$113,000, had been reverted to the State General Fund. However, our review disclosed that these recoveries had actually never been reverted. In this regard, we were advised by UMBI management personnel that the budget forms were completed without realizing that the reversions were being reported. Furthermore, such personnel advised us that they were unaware of the requirement to revert statewide indirect cost recoveries to the State General Fund.

The annual budget bill contains a provision stipulating that the amount of revenue received by an agency from any federal source for statewide indirect cost recoveries may only be transferred to the general fund and may not be retained in any clearing accounts or by any other means.

Recommendation 1

We recommend that UMBI

- a. revert the previously reported indirect cost recoveries to the State General Fund; and**

- b. in the future, accurately report and revert the statewide indirect cost recoveries to the State General Fund.**

Payroll

Finding 2

Employee timesheets were not always approved by supervisors.

Analysis

Electronic employee timesheets were not always electronically approved by supervisory personnel. Specifically, our review of all timesheets for the period from July 1, 2006 through June 30, 2009 for two locations (with 119 employees), disclosed that 69 timesheets for 20 employees did not contain supervisory approval. These unapproved timesheets, which included adjustments such as overtime, were used to prepare the payroll. We also noted that, for 8 of the 11 unapproved timesheets that included overtime, prior supervisory approval of the overtime was not documented. Consequently, there was a lack of assurance that work time reported was proper. According to UMBI records, fiscal year 2009 payroll expenditures totaled approximately \$27 million for approximately 280 employees.

The *UMBI Policy and Procedure on Electronic Time Reporting for Exempt and Non-Exempt Employees* stipulates that supervisors are required to review and approve electronic time records for employees that report to them. In addition, the *UMBI Policy and Procedures on Workweek, Work Schedules and Time Reporting for Nonexempt Employees* stipulates that overtime may not be worked without the express written approval of the employee's supervisor.

Recommendation 2

We recommend that UMBI ensure

- a. that timesheets are approved by supervisors, as required; and**
- b. that prior written approval of overtime is obtained and properly documented.**

Audit Scope, Objectives, and Methodology

We have audited the University System of Maryland (USM) – University of Maryland Biotechnology Institute (UMBI) for the period beginning February 3, 2006 and ending June 30, 2009. 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 State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine UMBI's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. The areas addressed by the audit included disbursements for UMBI's operating expenditures, as well as grant accounting, payroll, cash receipts, and equipment inventories. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of UMBI's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services, such as processing vendor payment transmittals and depositing cash receipts, provided to UMBI by the University of Maryland, Baltimore, and University of Maryland, College Park. These support services are included within the scope of our audits of these System units. In addition, our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of UMBI's compliance with federal laws and regulations pertaining to these programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including UMBI. Finally, our audit did not include an evaluation of information systems security and control because of the ongoing transfer of UMBI's programs to other USM entities.

UMBI'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 a finding relating to a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect UMBI'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.

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

APPENDIX



OFFICE OF THE CHANCELLOR

January 8, 2010

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, MD 21201

**RE: University System of Maryland – University
of Maryland Biotechnology Institute
Audit Period: February 3, 2006 – June 30, 2009**

Dear Mr. Myers:

I have enclosed the University System of Maryland's response to your draft report covering the examination of processes and controls of the University of Maryland Biotechnology Institute. Our comments refer to the individual items contained in the report.

Sincerely,

WE Kirwan

William E. Kirwan
Chancellor

Enclosure

WEK:mpk

cc: Dr. Edward Eisenstein, Acting President, UMBI
Mr. Clifford M. Kendall, Chair, Board of Regents, USM
Mr. Robert L. Page, Comptroller, USM
Mr. Kevin M. O'Keefe, Chair, MHEC
Dr. James E. Lyons, Sr., Secretary of Higher Education, MHEC

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

1985
University of Maryland
Biotechnology Institute

RESPONSE TO LEGISLATIVE AUDIT REPORT
University of Maryland – Biotechnology Institute (UMBI)
February 3, 2006 – June 30, 2009

Indirect Cost Recoveries

Finding 1

UMBI inaccurately reported to the legislative budget committees that statewide indirect cost recoveries totaling approximately \$113,000 were reverted to the State General Fund.

Recommendation 1

We recommend that UMBI

- a. revert the previously reported indirect cost recoveries to the State General Fund; and**
- b. in the future, accurately report and revert the statewide indirect cost recoveries to the State General Fund.**

Response

UMBI concurs with both recommendations. We will revert the previously reported indirect cost recoveries to the state general fund by June 30, 2010, and will accurately report and revert the statewide indirect cost recoveries in the future.

Payroll

Finding 2

Employee timesheets were not always approved by supervisors.

Recommendation 2

We recommend that UMBI ensure

- a. that timesheets are approved by supervisors, as required; and**
- b. that prior written approval of overtime is obtained and properly documented.**

Response

UMBI concurs with the recommendation. We will review procedures and ensure mechanisms are in place to verify that timesheets are approved by supervisors. We will also review procedures with supervisors to ensure that overtime is approved and documented in advance.

AUDIT TEAM

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Athenia M. Rock, CFE
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Staff Auditor