



**Department of Legislative Services
Office of Legislative Audits**

**University System of Maryland
University of Maryland Eastern Shore
(UMES)**

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Presentation to the Joint Audit Committee

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Department of Legislative Services Office of Legislative Audits

Audit Overview

- 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. UMES' revenues for fiscal year 2013 totaled approximately \$125 million, which included a State general fund appropriation of approximately \$30 million.
 - The report included 13 findings, only 1 of which was repeated from the preceding audit report.
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Key Audit Issues

- UMES did not exercise effective oversight over its activities with its affiliated foundation. For example, University employees, who served as the Foundation Executive Director, were allowed to exercise virtually complete control over \$640,000 in UMES grants awarded to the Foundation. The scope of the grant agreements was vague and immeasurable, and the benefits to UMES were not evident.
- UMES had not established adequate controls over several financial functions including certain aspects of its student accounts receivable.
- Numerous security and control issues were noted regarding UMES' information systems, including storing personally identifiable information in clear text.



University Affiliated Foundation

UMES did not exercise effective oversight of grants awarded to its affiliated Foundation. **(Finding 1)**

- Foundations are typically created to provide financial support to their affiliated University. Since fiscal year 2011, UMES received support from its Foundation totaling approximately \$30,000. During the period from January 2011 through January 2014, UMES provided grant awards to its Foundation totaling \$640,000 for certain economic development projects. The Foundation was approved as a business entity.
 - 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. For example, these employees managed the same grant projects on behalf of both the Foundation and UMES.
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University Affiliated Foundation (cont'd)

- The grant agreements between UMES and its Foundation were not complete as they did not include a time period for the performance of the grant projects or require documentation of the Foundation's activities and achievements. The scope of the agreements was vague and immeasurable, and the benefits to UMES were not evident in the agreements.
 - Grant funding was provided in advance of the expenditures being incurred, but UMES did not obtain documentation from the Foundation, such as invoices, to account for the use of the grant funds. Certain expenditures appeared questionable.
 - Because of UMES' lack of accountability over the grant funds, we were unable to account for a \$25,000 grant payment made by UMES to its Foundation in March 2011. This matter was referred to the Office of the Attorney General – Criminal Division.
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University Affiliated Foundation (cont'd)

A UMES management employee who became the Foundation Executive Director in January 2013 was involved in Foundation business activities that were not formally disclosed to UMES and which also created a potential conflict of interest. **(Finding 2)**

- 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 in part by UMES. The individual was not employed by UMES at the time of construction.
 - Under a memo of understanding between the LLC and the Foundation, certain project costs incurred by the LLC to administer the project were reimbursed or paid on its behalf by the Foundation. Based upon our review of Foundation records, these costs totaled \$380,000 for the period from January 2012 to March 2014, with a significant portion appearing to be funded by UMES.
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University Affiliated Foundation (cont'd)

- On behalf of the Foundation, this employee authorized payments totaling approximately \$115,000 to an entity owned by a relative of the employee for construction services related to the UMES/Foundation funded agricultural development project.
 - The employee violated UMES procedures by not submitting an annual report of potential conflicts of interest for calendar years 2012 and 2013, as required.
 - UMES did not notify the State Ethics Commission that this employee met the criteria for filing the annual financial disclosure statements. The employee did not file a disclosure statement with the Commission for calendar year 2012. The statement filed for 2013 appeared incomplete because the employee's interest in the LLC was not disclosed.
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University Affiliated Foundation (cont'd)

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

- At the management employee's request, UMES used Revolving Loan Fund (RLF) revenue to fund 2 of 15 grant payments to the Foundation during the period from January 2011 through January 2014.
- The RLF was established by UMES with federal funds to provide loans to local business for development and growth.
- The funds were not used for future loans or RLF administrative costs as required by federal regulations.
- UMES' use of these funds as grants for the Foundation could result in federal fiscal sanctions.



University Affiliated Foundation (cont'd)

UMES and its affiliated Foundation did not comply with USM Board of Regents' *Policy on Affiliated Foundations* and the *Policy on Business Entities*, as required. **(Finding 4)**

- Resources provided to the Foundation by UMES were not accurately disclosed in the annual UMES/Foundation agreements. OLA's review found that annual UMES staff resources provided were underreported by \$60,000 and non-staff resources (e.g., office space) were not quantified, as required.
 - The Foundation engaged in activities, including the administration of research grants, that were in potential conflict with the role and mission of USM and its institutions, without obtaining UMES approval.
 - UMES did not obtain certain required reports from the Foundation for fiscal year 2013 until OLA requested them in February 2014 and certain other reports had not been obtained.
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Student Accounts Receivable

- UMES did not establish proper controls over financial aid awards, certain non-cash credits, and changes to student residency status. **(Finding 5)**
 - UMES did not independently verify certain financial aid awards and related adjustments posted to student accounts for propriety. Fiscal year 2013 aid awarded totaled \$60.9 million.
 - Certain non-cash credit adjustments posted to student accounts, which totaled \$2.8 million in fiscal year 2013, were not adequately reviewed to ensure their propriety.
 - Reclassifications of student residency status were not always supported and approved.
 - UMES had not established proper controls to ensure the timely referral of all delinquent student accounts to the Department of Budget and Management – Central Collection Unit. **(Finding 6)**
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Information Systems Security & Control

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, used for administrative and academic operations.

- UMES did not ensure that capabilities assigned to individuals on the financial management systems were adequately restricted. OLA's review of 84 active users found some users were assigned unnecessary or inappropriate access to perform critical functions for cash receipts, student accounts, and/or student financial aid. **(Finding 7)**
- Access was not properly restricted over certain UMES files containing user accounts and related passwords to protect this confidential information. **(Finding 8)**



Information Systems Security & Control (cont'd)

- UMES inappropriately stored sensitive personally identifiable information in clear text. For example, full social security numbers, names, and addresses of current and former students and employees were unencrypted (117,510 SSNs). **(Finding 9)**
 - The UMES internal network was not adequately secured. For example, numerous computer labs had unnecessary network access to critical UMES administrative resources. **(Finding 10)**
 - Procedures for installing and monitoring anti-malware software on network computers need improvement. UMES personnel advised that such software was not installed on approximately 100 computers due to operating system performance issues and the anti-malware software itself reported approximately 350 additional computers without protection. **(Finding 11)**
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Other Issues

- UMES did not establish sufficient accountability and control over its collections and had not reconciled certain student spending account balances. **(Finding 12)**
 - 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.
 - Two employees had improper access to an online banking system for credit card collections.
 - The aggregate balance student spending accounts had not been reconciled with the fund balance in UMES records.
 - UMES did not obtain USM approval for leases of student housing facilities; used a fuel contractor without obtaining competitive bids; and did not verify certain reports used to calculate bookstore commission payments. **(Finding 13)**
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Conclusions

UMES needs to:

- preclude employees who perform managerial functions on behalf of its affiliated Foundation from representing both parties when conducting business.
- ensure that the scope of grant agreements include specific deliverables or accomplishments, funds are used for purposes specified, and that these activities are adequately monitored.
- ensure that employees properly disclose potential conflicts of interest to UMES as required and file financial disclosure statements.
- comply with the USM Board of Regents' policies.
- take the recommended actions to improve controls over student accounts receivable, information systems, cash receipts, student funds, and contract and procurement monitoring.