

Audit Report

Baltimore City Community College

May 2008



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

May 13, 2008

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

Ladies and Gentlemen:

We have audited the Baltimore City Community College (BCCC) for the period beginning August 5, 2004 and ending August 31, 2007.

Our audit disclosed that BCCC did not always follow State Procurement Regulations for contractual services procurements, such as for temporary personnel and advertising services. BCCC procured these services without soliciting competitive bids, without obtaining required State control agency authorizations, and without executing written contracts, as required.

Our audit also disclosed that BCCC did not adequately control and account for its equipment inventory and did not properly maintain its equipment records. For example, equipment items with significant value could not be accounted for by BCCC. Furthermore, security and control deficiencies existed with respect to BCCC's internal computer network and systems, including the credit card payment system.

Finally, various internal control weaknesses and other procedural deficiencies were noted in the areas of student accounts receivable, bookstore cash receipts, credit cards, student refunds, and student grades.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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Executive Summary

Legislative Audit Report on the Baltimore City Community College (BCCC) May 2008

- **BCCC did not always follow State Procurement Regulations when procuring contractual services. For example, it spent \$455,000 on temporary personnel services by routinely procuring such services on a case-by-case basis rather than by consolidating the related procurements. BCCC also procured these services without soliciting competitive bids, executing a written contract, and obtaining appropriate control agency approvals.**

BCCC should comply with State Procurement Regulations by procuring contractual services on the basis of competitive bids, executing formal written contracts, and obtaining required control agency authorizations.

- **BCCC did not refer delinquent student accounts to the Department of Budget and Management – Central Collection Unit (CCU) as required. For example, during July 2007, BCCC deleted 593 delinquent student accounts totaling approximately \$177,000 from its records without obtaining write-off authorization from CCU. These accounts were five to seven years old at the time of deletion.**

BCCC should comply with applicable CCU regulations and obtain written authorization from CCU prior to writing off accounts as uncollectible.

- **BCCC had not established adequate procedures to identify and pursue collection of vendor refunds related to textbook purchase returns. As of October 2007, BCCC had not received and pursued for collection outstanding refund payments totaling \$83,000 for textbook purchases returned to vendors during fiscal year 2007.**

BCCC should establish procedures to identify and collect vendor refunds, and should immediately initiate collection efforts to recover all outstanding vendor refund payments due, including the aforementioned \$83,000.

- **Corporate purchasing card issuances were not adequately controlled as required by the Comptroller's *Corporate Purchasing Card Program Policy and Procedures Manual*. Furthermore, BCCC opened an unauthorized credit card account for which credit card charges totaled \$81,725 during the audit period. This account was used by a management employee to make a number of questionable purchases that could not be adequately substantiated. The employee who made these purchases also approved the related account billing statements for payment.**

BCCC should comply with the requirements of the Comptroller's *Corporate Purchasing Card Program Policy and Procedures Manual*. BCCC should also immediately discontinue the use of the aforementioned credit card account unless written authorization to maintain the account is obtained from the Office of the Comptroller – General Accounting Division. If authorization is obtained, BCCC should maintain documentation to support the propriety of all purchases and should ensure that such purchases are reviewed and approved by independent management personnel.

- **BCCC did not adequately control and account for its equipment inventory and did not properly maintain its equipment records. For example, equipment items with significant value could not be accounted for by BCCC.**

BCCC should comply with the requirements of the Department of General Services' *Inventory Control Manual* regarding physical inventories and equipment record keeping.

- **BCCC's internal computer network and administrative systems were not adequately secured from internal threats, and security controls over the credit card payment system and student grades were inadequate.**

BCCC should take the recommended corrective actions to improve information system security and controls.

- **Internal control and related procedural weaknesses were noted with respect to bookstore cash receipts, student refunds, and student grades.**

BCCC should take the recommended corrective actions to improve controls in these areas.

Background Information

Agency Responsibilities

The Baltimore City Community College (BCCC) is an urban two-year institution and operates under the jurisdiction of BCCC's Board of Trustees. BCCC primarily offers associate of arts and certificate programs in the business and health services fields as well as general studies for the purpose of continuing education at a four-year institution. BCCC has three main campuses—the Liberty Campus, the Harbor Campus, and the Reisterstown Campus—as well as over 80 off-campus sites throughout Baltimore. BCCC's reported full-time equivalent enrollment for the Spring 2007 semester totaled 1,937 students. According to the State's accounting records, BCCC's fiscal year 2007 revenues totaled approximately \$77.1 million, which included a State General Fund appropriation of approximately \$35 million.

Audits of BCCC's General Purpose Financial Statements

An independent accounting firm was engaged by BCCC for the purpose of expressing an opinion on BCCC's general purpose financial statements for each of the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007. In the related audit reports, the firm stated that the general purpose financial statements presented fairly, in all material respects, the financial position of BCCC and the changes in fund balances for the years then ended in conformity with generally accepted accounting principles accepted in the United States.

Status of Findings From Preceding Audit Report

We reviewed the status of the 13 items from our preceding audit report dated July 19, 2005. We determined that BCCC satisfactorily addressed 11 of these findings. The remaining 2 findings are repeated in this report.

Findings and Recommendations

Procurement of Service Contracts

Finding 1

Baltimore City Community College did not always follow State Procurement Regulations for contractual service procurements.

Analysis

Baltimore City Community College (BCCC) procured the following services in a manner that did not comply with State procurement policies.

- During the period from August 2004 to June 2007, temporary personnel services for BCCC's bookstores, totaling approximately \$455,000, were repeatedly procured from two vendors as individual transactions rather than as a consolidated procurement and without soliciting competitive bids, potentially precluding higher-volume discounts. A similar condition was commented upon in our preceding audit report.
- During the same period, advertising services totaling approximately \$257,000 were procured from one vendor without soliciting competitive bids.
- Cafeteria and catering services were obtained from a local vendor without soliciting competitive bids. We were advised by BCCC management that both of these services were provided by the vendor under the terms of a contract that expired on August 29, 2003. This expired contract required the vendor to pay BCCC a monthly commission of five percent of the vendor's net profit applicable to the operation of the cafeteria and required the vendor to be paid for the cost of all catering services provided to BCCC. During our audit period, BCCC did not receive any commission payments from the vendor for the operation of the cafeteria, and it did not determine whether the vendor had a net profit. During the period from August 2004 to June 2007, catering service expenditures totaled approximately \$266,000.

We further noted that BCCC did not obtain State control agency approvals, did not provide documented justification for sole source procurements, nor execute written contracts for any of the above services.

State Procurement Regulations require that service contracts in excess of \$25,000 be awarded on the basis of competitive bidding and that they be in writing. The

Regulations also require that State agencies submit such procurements up to \$200,000 to the Department of Budget and Management, and those exceeding that amount to the Board of Public Works, for review and approval. The Regulations further require that revenue-generating procurements (such as BCCC's cafeteria) be awarded on the basis of competitive bids and supported by written contracts.

Recommendation 1

We again recommend that BCCC comply with State Procurement Regulations. Specifically, we again recommend that BCCC consolidate and procure ongoing services on the basis of competitive bids to ensure these services are obtained at the lowest available costs and/or to help maximize any related vendor commission payments. We further recommend that BCCC execute formal written contracts with the vendors that provide such services, and request applicable State control agency authorizations. Finally, we recommend that BCCC take the necessary action to determine whether it is entitled to commission payments from the vendor applicable to the operations of the cafeteria during our audit period.

Student Accounts Receivable

Finding 2

Internal controls over non-cash credit adjustments recorded in student accounts were inadequate.

Analysis

Internal controls over non-cash credit adjustments recorded in student accounts were inadequate. Specifically, during the preceding two years, certain adjustments had not been reviewed and approved by BCCC supervisory personnel before they were processed. Furthermore, although BCCC had assigned an independent employee to verify the propriety of non-cash credits (that is, to sight documentation) after they were recorded in student accounts, as of the September 2007, these verifications had not been performed since April 2007. In addition, when these verifications were performed, they included only selected transactions. For example, this employee did not verify any recorded adjustments related to CCU activity and tuition waivers. CCU activity and tuition waivers accounted for \$1.1 million of the \$1.3 million of non-cash credit adjustments recorded by BCCC during fiscal year 2007.

Recommendation 2

We recommend that all non-cash credits be reviewed and approved by supervisory personnel prior to being recorded to student accounts receivable. We also recommend that BCCC verify that all recorded non-cash credit adjustments were reviewed and approved as required and supported by appropriate documentation, at least on a test basis.

Finding 3

BCCC did not refer certain delinquent accounts to the Department of Budget and Management – Central Collection Unit (CCU) as required.

Analysis

BCCC did not refer certain delinquent student accounts to CCU as required. Specifically, due to a lack of documentation to support the accounts, during July 2007, BCCC deleted 593 student accounts receivable totaling approximately \$177,000 from its records without obtaining authorization from CCU to write off the accounts. These same accounts, which ranged from approximately five to seven years old at the date of deletion, were previously identified as delinquent, and were commented upon in our preceding audit report.

In addition, as of August 2007, BCCC's student accounts receivable records included more than 7,600 accounts totaling approximately \$76,000 with individual balances of less than \$30 that had been outstanding for periods ranging from 4 to 36 months and had not been referred to CCU, as required.

State regulations require that State agencies obtain approval from CCU prior to writing off unpaid accounts, including accounts with balances of less than \$30; accounts with balances of less than \$30 are not accepted by CCU for collection assistance. BCCC's student accounts receivable totaled approximately \$8.4 million as of August 2007.

Recommendation 3

We recommend that BCCC maintain proper documentation for all student accounts and obtain written authorization from CCU prior to writing off outstanding accounts as uncollectible. We also recommend that BCCC refer the aforementioned accounts totaling \$253,000 to CCU to obtain the required proper approval for write off.

Campus Bookstores

Finding 4

Controls over cash receipts collected by BCCC's main campus bookstore were inadequate.

Analysis

Controls over collections received by BCCC's main campus bookstore, which totaled approximately \$354,000 (excluding credit card payments and other electronic transactions) during fiscal year 2007, were inadequate. We noted the following conditions:

- BCCC did not verify the continuity of transaction numbers recorded on its automated cash register system as part of its deposit verification process. As a result, bookstore cashiers could potentially close out their assigned registers at any time and misappropriate related collections without detection.
- Bookstore cashiers did not always sign the daily cash reports to certify that they had counted the cash receipts on hand. Our test of 16 cash register closeout reports, with related cash sales totaling approximately \$24,000, disclosed that 9 of the reports were not signed by the applicable cashiers.

Recommendation 4

We recommend that independent supervisory personnel verify the daily continuity of the bookstore's cash register transactions and that all daily cash reports are signed by the cashiers preparing the reports.

Finding 5

BCCC did not have adequate procedures to ensure timely collection of bookstore vendor refunds.

Analysis

BCCC had not established adequate procedures to identify and pursue timely collection of refunds due from vendors related to textbook purchase returns. Although the automated sales system used in the bookstores had the capability to generate a listing of all vendor refunds due, BCCC did not use that capability. Moreover, as of October 2007, BCCC had not received or pursued collection of refund payments totaling approximately \$83,000 due from vendors for purchases returned during fiscal year 2007. Bookstore refunds for fiscal year 2007 totaled approximately \$1.1 million.

Recommendation 5

We recommend that BCCC establish procedures and controls to identify and account for all vendor refund payments due. Specifically, we recommend that BCCC utilize the bookstores' automated sales system to identify all vendor refunds due applicable to purchase returns. We also recommend that BCCC monitor the status of uncollected refunds and pursue recovery of all outstanding vendor refund payments, including the aforementioned \$83,000.

Credit Cards

Finding 6

Corporate purchasing cards were not adequately controlled.

Analysis

BCCC lacked adequate controls over its corporate purchasing cards. Specifically, the employee who completed the online purchasing card applications also received the cards from the bank and distributed the cards to the applicable employees. Consequently, purchasing cards could be inappropriately issued and unauthorized purchases may not be readily detected. In addition, BCCC did not restrict the issuance of cards to employees who regularly procured goods and services. In this regard, we identified nine active purchasing cards that, as of June 2007, had no purchasing activity for periods ranging from 7 to 29 months.

According to the credit card bank's records, as of August 2007, BCCC had 86 active corporate purchasing cards and made related purchases totaling approximately \$1.3 million during fiscal year 2007.

The Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual* states that the employee who orders the cards from the bank should not also receive the cards. The *Manual* also requires agencies to promptly cancel cards that have no activity for an extended period.

Recommendation 6

We recommend that BCCC comply with the *Corporate Purchasing Card Program Policy and Procedures Manual*. Specifically, we recommend that the employee who orders cards from the bank not also receive and distribute the cards. We also recommend that BCCC limit the issuance of purchasing cards to employees who regularly procure goods and services, and cancel any cards that have no activity for an extended period (for example, six months).

Finding 7**BCCC used an unauthorized credit card account to make certain questionable purchases.****Analysis**

BCCC established an unauthorized credit card account with a private retailer, and assigned related credit cards to eight employees. During our audit period, these credit card expenditures totaled \$81,725. We also noted that a management employee used the card to make numerous questionable purchases and approved the related account billing statements for payment.

Specifically, our tests of all account charges disclosed questionable purchases totaling approximately \$7,250 that were made by this management employee. For example, this employee used the card to purchase a digital camera costing \$799 and two electronic entertainment game consoles costing \$449 each, as well as numerous other consumer electronics items, such as DVD players and video games. We were advised by BCCC that the aforementioned items were awarded to students as prizes during certain school-sponsored events; however, BCCC was unable to document the specific students to whom prizes were given or the related events.

The Comptroller of the Treasury's *Accounting Procedures Manual* states that, generally, the General Accounting Division does not approve use of credit cards unless it is through the Comptroller's Corporate Purchasing Card Program.

Recommendation 7

We recommend that BCCC discontinue the use of the aforementioned credit card account unless specific written authorization to maintain the account is obtained from the General Accounting Division. If authorization is obtained, we recommend that BCCC maintain proper documentation to support the propriety of all items purchased and awarded to students, and that all purchases made through this account be reviewed and approved by independent management personnel. In addition, we recommend that BCCC review for propriety the questionable purchases disclosed by our audit as well as any subsequent purchases made by the aforementioned management employee. Finally, we recommend that BCCC refer this matter to the Office of the Attorney General – Criminal Division if it determines that any such purchases were possibly fraudulent or otherwise inappropriate.

Equipment

Finding 8

BCCC was unable to account for equipment items with significant value and did not properly maintain its equipment records.

Analysis

BCCC did not adequately control and account for its equipment inventory and did not properly maintain its equipment records. Specifically, a comparison of the results of a physical inventory taken by BCCC during fiscal year 2007 with the related detail records disclosed that equipment items with significant value could not be accounted for by BCCC.

Specifically, although BCCC's detail equipment records totaled approximately \$24.1 million as of June 30, 2007, related computer-generated reports showed that equipment items totaling \$12.1 million were identified during the fiscal year 2007 physical inventory and that items totaling \$9.2 million were not located. As of November 2007, we were advised that equipment items valued at about \$5 million remained to be located. Furthermore, BCCC was unable to explain the remaining difference, totaling \$2.8 million, between the amounts reflected in the aforementioned reports and the total of its detail equipment records.

In addition, BCCC did not always record equipment acquisitions in the related detail records. For example, our test of 15 equipment acquisitions totaling \$647,570 disclosed that 4 items totaling \$143,970 were not recorded in the detail records. We also noted that detail records lacked acquisition costs for 651 equipment items. Finally, BCCC did not maintain an independent equipment control account, as required. Similar conditions were also commented upon in our two preceding audit reports.

The Department of General Services' *Inventory Control Manual* requires that the results of physical inventories of equipment be reconciled to the related detail records and that differences between physical counts and the detail records be investigated, approved, and used to update the equipment records. The *Manual* also requires that State agencies maintain their equipment records in accordance with prescribed standards.

Recommendation 8

We again recommend that BCCC comply with the requirements of the Department of General Services' *Inventory Control Manual* regarding physical inventories and equipment record keeping.

Student Refunds

Finding 9

BCCC issued financial aid refunds to students prior to receiving the related federal funds.

Analysis

BCCC issued financial aid refunds to students before the related federal funds were received. Specifically, our test of federal fund reimbursement requests totaling approximately \$10.7 million disclosed that refund payments totaling approximately \$4.9 million were issued in advance by BCCC to students who were approved by the federal granting authority on those reimbursement requests and who had paid their tuition and fees. In this regard, for those students, the refunds were issued from 5 to 41 days before the related federal funds were received.

The aforementioned delays were even longer for students who were included in these reimbursement requests but whose aid was initially rejected by the federal granting authority. For example, our test disclosed that refunds were issued to five students whose eligibility for aid was initially rejected by the federal granting authority. Although these five students were eventually authorized to receive federal financial aid, BCCC had issued refunds to these students 4 to 10 months prior to the students being declared eligible to receive aid.

BCCC's practice of issuing financial aid refunds to students prior to receiving the related federal funds unnecessarily exposed BCCC to the risk that refunds may be issued to students subsequently determined ineligible for financial aid. In such cases, BCCC would need to attempt to recover the refunds. Federal guidelines provide that an institution may withhold issuance of financial aid refunds to students until notification of approval is received from the granting authority. We noted that notification of approval is concurrent with the receipt of federal funds. During fiscal year 2007, BCCC issued 10,195 financial aid refund payments totaling approximately \$5.5 million.

Recommendation 9

We recommend that BCCC not issue financial aid refunds to students until funding has been received from the applicable federal granting authority.

Information Systems Security and Control

Background

The Computer and Information Technology Services Division manages the development, maintenance, and support of BCCC's information technology operations. The Division maintains an integrated administrative and academic computer network, which includes separate email and file servers, Internet connectivity, and multiple firewalls. The Division also maintains critical application systems supporting student, human resource, and financial information systems. Furthermore, the Division operates web-enabled applications that are used by students to make payments to BCCC and by faculty to record student grades.

Finding 10

Certain aspects of BCCC's event logging and monitoring of critical network devices need improvement.

Analysis

Certain aspects of BCCC's logging and monitoring of critical network devices, capable of protecting the internal network from security risks, need improvement. Specifically, we noted the following conditions:

- A critical Internet firewall's logs were stored on a separate logging server; however, this server was accessible at a network level from the untrusted student computer labs within BCCC's internal network. Accordingly, the firewall's logs were subject to potential compromise.
- BCCC personnel stated that they did not regularly review the logs for the aforementioned Internet firewall and for another critical network device for significant security events. In addition, any reviews that were performed were not documented.

Recommendation 10

We recommend that BCCC restrict network level access to critical network devices to information technology staff whose job functions require such access. We also recommend that logs for all critical network devices be reviewed for significant security events on a daily basis and that these reviews be documented and retained for audit verification.

Finding 11**BCCC's computer network was not adequately secured from internal threats.****Analysis**

Adequate security measures had not been established to protect BCCC's critical network servers and administrative systems from internal threats. Specifically, critical servers hosting key administrative systems were not adequately protected from unnecessary network level access from within the internal network. For example, administrative user workstations on the internal network had unnecessary network level access to several key administrative servers over all ports. Also, user workstations in the student network segment (including student computer labs) had network level access to most of the administrative network over all ports.

Recommendation 11

We recommend that BCCC appropriately limit network level access to critical segments of its network. Specifically, we made detailed recommendations, which, if implemented, should provide for adequate security over its network.

Finding 12**Security controls over the credit card payment system need improvement.****Analysis**

Security controls over the credit card payment system need improvement. Specifically, we noted the following conditions:

- BCCC used a credit card service provider to process its credit card payments. However, BCCC used a single credit card service provider account to manage its credit card verification and payment settings as well as to process credit card payments. In addition, this account name and its related password were stored in plain text within a computer program file on the student web application server. Furthermore, the account was assigned to an employee whose employment with BCCC ended in June 2007, and the related password had not been changed as of late August 2007.

Accordingly, BCCC's credit card verification and payment settings were at risk of improper alteration from anyone capable of reading the plain text userid and password, and from the former employee. Separate accounts should be established for credit card payment transaction processing and

service management to limit security risks. In addition, service management account passwords should be immediately changed upon termination of employees with knowledge of such passwords. We were advised by BCCC that, during the period from January 2006 through August 2007, payments processed by the provider totaled approximately \$868,000.

- The credit card service provider allows merchants (including BCCC) to limit access to the service management account to specific Internet addresses, thereby enhancing security over who could attempt to use this account. However, BCCC did not exercise this option to limit such access. Use of the service management accounts should be limited to specific Internet addresses.

Recommendation 12

We recommend that separate accounts be established for credit card payment transaction processing and service management to limit security risks. We also recommend that service management account passwords be immediately changed upon termination of employees with knowledge of such passwords and that use of the service management accounts be restricted to defined Internet addresses.

Finding 13

Account and password controls were not adequate.

Analysis

Account and password controls were not adequate. Specifically, for a significant number of network users, network user accounts were not disabled after repeated failed logon attempts, and network security settings did not enforce password aging or a minimum password length. Similarly, for the student and faculty web portals, which provide for posting and viewing of student grades, account lockout and password length and complexity controls were inadequate. Accordingly, control settings for accounts and passwords did not comply with the requirements of the Department of Budget and Management's (DBM) *Information Technology Security Policy and Standards*.

Recommendation 13

We recommend that BCCC comply with account and password requirements and recommendations of the aforementioned DBM *Information Technology Security Policy and Standards*.

Student Grades

Finding 14

Changes made to recorded student grades were not adequately controlled.

Analysis

BCCC lacked adequate controls over changes made to recorded student grades. BCCC had designated an independent employee to perform monthly reviews of grade changes recorded in BCCC's computer system to ensure that such changes were authorized and accurately recorded. However, the reviews were not always documented. Our test of 15 grade changes recorded during March 2007 disclosed that, for 6 of these changes, BCCC lacked documentation to support that the changes had been reviewed as required. In addition, as of September 2007, no reviews had been performed since May 2007. As a result, grade changes from the Spring and Summer 2007 semesters had not been reviewed.

In addition, five individuals, including an employee who verified certain grade changes at the time that they were recorded, had system access capabilities that allowed them to modify recorded student grade information even though such capabilities were not necessary for these individuals to perform their job duties. As a result of these conditions, unauthorized modifications to student grades could be processed and not readily detected.

Recommendation 14

We recommend that reviews of grade changes be performed timely by an employee independent of the grade change process, and that all such reviews be documented. We also recommend that BCCC restrict access to recorded student grades to employees who require such access to perform their assigned duties.

Audit Scope, Objectives, and Methodology

We have audited the Baltimore City Community College (BCCC) for the period beginning August 5, 2004 and ending August 31, 2007. 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 BCCC's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained 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 BCCC'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 an evaluation of internal controls for federal financial assistance programs and an assessment of BCCC's 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 BCCC.

Our audit scope was limited with respect to BCCC's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all BCCC cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

BCCC's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records,

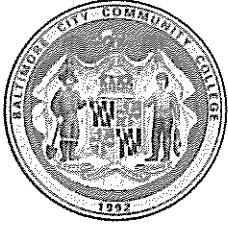
effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

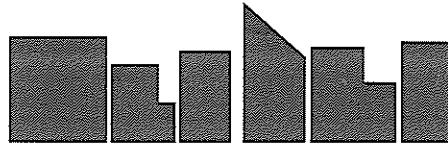
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect BCCC'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 of significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to BCCC that did not warrant inclusion in this report.

BCCC's response 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 BCCC regarding the results of our review of its response.



Baltimore City Community College



Changing Lives...Building Communities

APPENDIX

May 12, 2008

OFFICE OF THE PRESIDENT
Carolane Williams, Ph.D.
President

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LIBERTY CAMPUS
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LIBERTY CAMPUS
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Baltimore, MD 21215-7893

HARBOR CAMPUS
Bard Building
600 E. Lombard Street
Baltimore, MD 21202-4073

BUSINESS AND CONTINUING
EDUCATION CENTER
710 E. Lombard Street
Baltimore, MD 21202-4047

REISTERSTOWN
PLAZA CENTER
6764A Reisterstown Road
Baltimore, MD 21215-2306

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

RE: Baltimore City Community College Response to Draft Audit

Dear Mr. Myers:

Enclosed please find The Baltimore City Community College's responses to the Office of Legislative Audit's Draft Audit Report for the period beginning August 5, 2004 and ending August 31, 2007. Our response comments refer to the respective items contained in the report.

Please feel free to contact me at (410) 462- 7799 or cwilliams@bccc.edu, if you require additional information or have any questions.

Best Regards,

Dr. Carolane Williams, Ph.D.
President

Enclosure

cc: Garland O. Williamson, Chair, Board of Trustees, BCC College
James E. Lyons, Sr., Ph.D., Secretary of Higher Education,
Maryland Higher Education Commission
Kevin M. O'Keefe, Chairman,
Maryland Higher Education Commission

Responses to Audit Report

Baltimore City Community College

May 2008

**RESPONSE TO LEGISLATIVE AUDIT REPORT
BALTIMORE CITY COMMUNITY COLLEGE
AUGUST 5, 2004 TO AUGUST 31, 2007**

Procurement of Service Contracts

Finding 1:

Baltimore City Community College did not always follow State Procurement Regulations for contractual service procurements.

Recommendation 1:

We again recommend that BCCC comply with State Procurement Regulations. Specifically, we again recommend that BCCC consolidate and procure ongoing services on the basis of competitive bids to ensure these services are obtained at the lowest available costs and/or to help maximize any related vendor commission payments. We further recommend that BCCC execute formal written contracts with the vendors that provide such services, and request applicable State control agency authorizations. Finally, we recommend that BCCC take the necessary action to determine whether it is entitled to commission payments from the vendor applicable to the operations of the cafeteria during our audit period.

BCCC Response: *We Concur.* BCCC will comply with State Procurement Regulations and will ensure that formal written contracts with vendors are executed and that contract terms are clearly enforced. BCCC has begun the process to develop an RFP for both temporary personnel services and advertising services. BCCC will consolidate procurements for ongoing temporary personnel and advertising services to ensure these services are obtained at the lowest cost to the State.

The College has begun the process to develop an RFP for the cafeteria and catering services. A contract manager will be assigned to monitor the contract to ensure all terms and obligations of the contract are met. BCCC has met with the cafeteria vendor and has requested detailed access to the sales records including daily sales receipts to verify and document the vendor's sales position. BCCC will also consult with the Office of the Attorney General to determine if the College is entitled to commission payment from the vendor applicable to the operations of the cafeteria during the audit period.

Procurement of Service Contracts (cont.)

BCCC currently complies with State procurement requirements and prepares and authorizes purchase orders and written justification for sole source procurements prior to granting procurement awards. The College will strengthen its internal controls to alleviate the potential for exceptions to occur and review its processes to ensure the College requests applicable State control agency authorizations.

Student Accounts Receivable

Finding 2:

Internal controls over non-cash credit adjustments recorded in student accounts were inadequate.

Recommendation 2:

We recommend that all non-cash credits be reviewed and approved by supervisory personnel prior to being recorded to student accounts receivable. We also recommend that BCCC verify that all recorded non-cash credit adjustments were reviewed and approved as required and supported by appropriate documentation, at least on a test basis.

BCCC Response: *We Concur.* The College has strengthened its controls over non-cash credits and updated the review process for non-cash transactions. Reviews have been expanded to include reviews of account write-offs authorized by CCU and tuition waivers approved by BCCC's Human Resources Office. All reviews from April 2007 thru April 2008 have been completed. The College is ensuring adjustments are adequately reviewed and approved by supervisory personnel prior to being recorded to the student account. A secondary independent review is also performed after the adjustment is posted to verify the adjustment.

Finding 3:

BCCC did not refer certain delinquent accounts to the Department of Budget and Management – Central Collection Unit (CCU) as required.

Recommendation 3:

We recommend that BCCC maintain proper documentation for all student accounts and obtain written authorization from CCU prior to writing off outstanding accounts as uncollectible. We also recommend that BCCC refer the aforementioned accounts totaling \$253,000 to CCU to obtain the required proper approval for write off.

BCCC Response: *We Concur.* BCCC investigated the 593 student accounts receivable totaling approximately \$177,000 which date from 1996 through 2003. The supporting documentation for the accounts was not available and as a result the accounts were internally deemed uncollectable and written off. The College will comply with State regulations requiring State agencies to transfer delinquent accounts receivable to the CCU for collection assistance and obtain approval from CCU prior to writing off unpaid accounts. As a result the College will restate the accounts and forward to CCU to obtain the necessary authority to write off the accounts.

An investigation of the 7,600 accounts totaling approximately \$76,000 with individual balances of less than \$30 indicated 98% were a result of application fees from High School College Fair participants. The College will forward these accounts to CCU to request approval to write off the accounts. The College will also review its policy and procedures for charging application fees to High School Fair participants.

The College has modified its CCU procedures to include forwarding on a monthly basis all accounts under \$30 to request approval to write-off the accounts.

Campus Bookstores

Finding 4:

Controls over cash receipts collected by BCCC's main campus bookstore were inadequate.

Recommendation 4:

We recommend that independent supervisory personnel verify the daily continuity of the bookstore's cash register transactions and that all daily cash reports are signed by the cashiers preparing the reports.

BCCC Response: *We Concur.* The College is verifying the continuity of transaction numbers recorded on its automated cash register system by reviewing and verifying transaction codes generated by the POS system. Any exceptions noted are investigated and documented.

The Bookstore cashiers have been retrained in procedures including register close-outs and signing of daily cash reports, to certify they have counted the cash receipts on hand. A secondary internal control has been implemented to include an independent verification by the General Accounting Department.

Campus Bookstores (cont.)

Finding 5:

BCCC did not have adequate procedures to ensure timely collection of bookstore vendor refunds.

Recommendation 5: We recommend that BCCC establish procedures and controls to identify and account for all vendor refund payments due. Specifically, we recommend that BCCC utilize the bookstore's automated sales system to identify all vendor refunds due applicable to purchase returns. We also recommend that BCCC monitor the status of uncollected funds and pursue recovery of all outstanding vendor refund payments, including the aforementioned \$83,000.

BCCC Response: *We Concur.* The College has implemented an in-depth analysis of all vendor refund payments due including credit memos and refund checks received on a monthly basis. The College has implemented a three way reconciliation process between FMIS, the POS system (the Bookstore's automated sales system), and an Access database that list all vendor refunds.

The College has also reinforced the use of debit memos from the POS system accompanying every vendor return. The debit memos are printed by the POS system with the publisher's invoice information. No textbook returns will be processed without this control. The debit memos are reconciled to credit memos on a monthly basis.

The College is actively pursuing recovery of all outstanding vendor refund payments including the aforementioned \$83,000. Credit memos which cannot be applied to a pending invoice within 90 days will be converted to vendor refund request. The refunds will be actively monitored on a weekly basis for receipt.

Credit Cards

Finding 6:

Corporate purchasing cards were not adequately controlled.

Recommendation 6:

We recommend that BCCC comply with the *Corporate Purchasing Card Program Policy and Procedures Manual*. Specifically, we recommend that the employee who orders cards from the bank not also receive and distribute the cards. We also recommend that BCCC limit the issuance of purchasing cards to employees who regularly procure goods and

Credit Cards (cont.)

services, and cancel any cards that have no activity for an extended period (for example, six months).

BCCC Response: *We Concur.* BCCC has revised and implemented procedures to ensure that personnel independent from completing the online purchasing card application distribute the cards to the applicable employees. Controls also include card recipients signing to acknowledge receipt of the credit card. Receipt of the credit cards will be independently verified.

Monthly reviews of cardholder activity will be conducted and will include deactivating accounts with no activity for six months. Additionally, cards will be monitored for the appropriate spending limits.

Finding 7:

BCCC used an unauthorized credit card account to make certain questionable purchases.

Recommendation 7:

We recommend that BCCC discontinue the use of the aforementioned credit card account unless specific written authorization to maintain the account is obtained from the General Accounting Division. If authorization is obtained, we recommend that BCCC maintain proper documentation to support the propriety of all items purchased and awarded to students, and that all purchases made through this account be reviewed and approved by independent management personnel. In addition, we recommend that BCCC review for propriety the questionable purchases disclosed by our audit as well as any subsequent purchases made by the aforementioned management employee. Finally, we recommend that BCCC refer this matter to the Office of the Attorney General – Criminal Division if it determines that any such purchases were possibly fraudulent or otherwise inappropriate.

BCCC Response: *We Concur.* BCCC has discontinued the use of the non-State approved credit card. Additionally, The Office of Student Affairs has implemented procedures to document and identify all students who receive an award, prize, and/or giveaway with a value greater than \$50.

The College's Internal Auditor will perform an internal review and investigate the credit card in question to review for propriety the questionable purchases disclosed by the audit, as well as any subsequent purchases made by the employee. If it is determined that any purchases made with the non-State approved card were possibly fraudulent or otherwise inappropriate, BCCC will refer the matter to the Office of the Attorney General – Criminal Division as required.

Equipment

Finding 8:

BCCC was unable to account for equipment items with significant value and did not properly maintain its equipment records.

Recommendation 8:

We again recommend that BCCC comply with the requirements of the Department of General Services' *Inventory Control Manual* regarding physical inventories and equipment record keeping.

BCCC Response: *We Concur.* The College will comply with the requirements of the Department of General Services (DGS) Inventory Control Manual to control and account for its equipment inventories and properly maintain its equipment record. The results of physical inventories will be reconciled to the related detail records. The College maintains an independent control account as required and that differences between the physical counts and the detail records be investigated, approved, and used to update the equipment records.

Student Refunds

Finding 9:

BCCC issued financial aid refunds to students prior to receiving the related federal funds.

Recommendation 9:

We recommend that BCCC not issue financial aid refunds to students until funding has been received from the applicable federal granting authority.

BCCC Response: *We Concur.* The Office of Student Financial Aid modified its procedures effective with the beginning of the 2007-08 award years. The Office of Student Financial Aid will forward all Origination and Disbursement records to the Department of Education (DOE) before the Student Accounting Office posts refund checks to students' accounts. Upon receiving the Pell Response Report from DOE, the Office of Student Financial Aid will forward a listing of records including any rejected records to the Student Accounting Office. The Student Accounting Office will process the records and place a hold on students' records that were rejected to prevent a refund check from being generated.

Information Systems Security and Control

Finding 10:

Certain aspects of BCCC's event logging and monitoring of critical network devices need improvement.

Recommendation 10:

We recommend that BCCC restrict network level access to critical network devices to information technology staff whose job functions require such access. We also recommend that logs for all critical network devices be reviewed for significant security events on a daily basis and that these reviews be documented and retained for audit verification.

BCCC Response: *We Concur.* BCCC has restricted network level access to critical network devices to information technology staff whose job functions require such access. In addition, BCCC is in the process of evaluating software solutions for 24x7 monitoring and exception notification of critical network device log files. The log files monitoring information will be stored electronically for review and audit verification BCCC expects to purchase and implement a software log monitoring solution by July 2008.

Finding 11:

BCCC's computer network was not adequately secured from internal threats.

Recommendation 11:

We recommend that BCCC appropriately limit network level access to critical segments of its network. Specifically, we made detailed recommendations, which, if implemented, should provide for adequate security over its network.

BCCC Response: *We Concur.* BCCC will install devices that will separate the "untrusted" traffic from computer labs from the administrative network traffic. Though the student and administrative networks are logically separated, intrusion detection and protection devices are needed and will be installed to guard the critical routers that perform the logical separation. With the installation of these internal IPS/IDS devices, the administration network will be guarded against possible intrusion or interference from internal threats and, or traffic. BCCC expects these devices to be installed by December 2008.

Finding 12:

Security controls over the credit card payment system need improvement.

Recommendation 12:

We recommend that separate accounts be established for credit card payment transaction processing and service management to limit security risks. We also recommend that service management account passwords be immediately changed upon termination of employees with knowledge of such passwords and that use of the service management accounts be restricted to defined Internet addresses.

BCCC Response: *We Concur.* BCCC will setup two accounts; one for application processing and one for service management. We will also setup the management account settings to be restricted to certain IP addresses. Account administration duties will be reassigned to someone who does not have HP or Web Portal administration access. These changes will be in place by July 2008.

Finding 13:

Account and password controls were not adequate.

Recommendation 13:

We recommend that BCCC comply with account and password requirements and recommendations of the aforementioned DBM *Information Technology Security Policy and Standards*.

BCCC Response: *We Concur.* BCCC has complied the account and password requirements and recommendations of the DBM Information Technology Security Policy and Standards for all systems except the Cobol-based systems. Due to the age of these systems, they are not capable of supporting the password complexity as outline by the DBM ITSPS. Access to these systems are restricted by those users who have authorized access to the network services which is governed by strict password policies and the Microsoft Windows active directory. As the cobol-based systems are replaced, the new systems will be configured to support the password requirements of the DBM ITSPS.

Student Grades

Finding 14:

Changes made to recorded student grades were not adequately controlled.

Recommendation 14:

We recommend that review of grade changes be performed timely by an employee independent of the grade change process, and that all such reviews be documented. We also recommend that BCCC restrict access to recorded student grades to employees who require such access to perform their assigned duties.

BCCC Response: *We Concur.* The College will ensure grade changes are reviewed in a timely manner by someone independent of the process and that the reviews are documented. The College is strengthening this review process and training additional personnel.

The College will restrict access to recorded student grades to employees who requires access to perform their assigned duties. The procedure will suspend access of any employee who no longer requires access to recorded students grades in order to perform their duties.

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