

Audit Report

**University System of Maryland
Bowie State University**

January 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

January 17, 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 University System of Maryland – Bowie State University (BSU) for the period beginning January 13, 2004 and ending April 30, 2007.

Our audit disclosed that sufficient access and security controls were not in place over significant computer applications, including academic and financial systems. For example, computer access to sensitive personal and financial information of students and employees was not sufficiently restricted, critical software supporting significant BSU systems was out of date, and adequate back-up procedures were not in place.

A number of deficiencies were noted with respect to student accounts. Based on our tests, students with outstanding balances were permitted to register for and attend classes at BSU in violation of a policy issued by the University System of Maryland's Board of Regents. BSU also did not always refer delinquent accounts to the State's Central Collection Unit in a timely manner, and certain student accounts receivable transactions were not adequately controlled.

Our audit also disclosed that purchases made by employees using corporate purchasing cards frequently lacked required supporting documentation and BSU did not always comply with the State's corporate purchasing card policy requirements. We also noted that BSU did not ensure the propriety of student financial aid awards, academic grades, and residency information recorded in its automated systems. Finally, BSU lacked adequate internal controls over electronic fund transfers and equipment.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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Executive Summary

**Legislative Audit Report on the University System of Maryland (USM)
Bowie State University (BSU)
January 2008**

- **Sufficient access and security controls were not in place over significant computer applications, including the student administration and financial systems. For example, access to the systems was not properly restricted, sensitive personal and financial information of students and employees was unnecessarily stored in plain text on the related servers, critical software that supported significant systems was out of date, and adequate back-up procedures were not in place.**

BSU should take the recommended corrective actions to improve security over these critical applications.

- **BSU violated Board of Regents policy by permitting certain students with prior and current semester past due balances to attend classes and did not always transfer delinquent student accounts to CCU in accordance with specific regulations established by CCU for BSU.**

BSU should take appropriate action to collect student accounts and comply with related Board of Regents and CCU requirements.

- **Student refunds and non-cash credit adjustments recorded in student accounts were not properly controlled and related duties were not adequately separated. During fiscal year 2006, BSU processed refunds and non-cash credit adjustments totaling approximately \$15.3 million and \$2.3 million, respectively.**

BSU should ensure that employees approving student refunds review the supporting documentation before processing them and that non-cash credit adjustments are independently reviewed. BSU should also separate incompatible duties, as recommended.

- **BSU lacked adequate controls over tuition charges and payments related to an educational partnership program offered to participating students who were employed by a local public school system.**

BSU should use its automated student accounts receivable system to account for tuition charges and related payments applicable to the aforementioned

program. BSU should also establish controls to ensure that related student payments are remitted directly to its Office of Student Accounts and should verify that all students participating in the program have been properly authorized.

- **BSU lacked documentation to support purchases totaling approximately \$131,000 that were made by employees using corporate purchasing cards. BSU also did not comply with certain related policy requirements.**

BSU should investigate and determine the propriety of the unsupported purchases identified during our audit and take appropriate action, including referral to the Office of the Attorney General – Criminal Division, if warranted. BSU should also comply with the requirements of the Comptroller of the Treasury’s *Corporate Purchasing Card Program Policy and Procedures Manual*.

- **BSU did not have adequate procedures to ensure that electronic transfers of federal funds were properly credited to BSU.**

BSU should establish controls to ensure that electronic transfers of related federal funds are properly credited to BSU.

- **Sufficient procedures were not in place to ensure the propriety of critical student data recorded in BSU’s automated systems.**

BSU should take the recommended actions to ensure the propriety of financial aid awards, student residency data, and student grades.

- **BSU did not investigate equipment items totaling \$1.9 million that were not located during a 2006 physical inventory.**

BSU should promptly investigate all equipment items that are not located during physical inventories.

Background Information

Agency Responsibilities

Bowie State University (BSU) is a comprehensive public institution of the University System of Maryland and operates under the jurisdiction of the System's Board of Regents. BSU is a regional university that provides a broad range of baccalaureate programs in such fields as natural and behavioral sciences, information technology, and mathematics, as well as selected professionally-oriented graduate programs, including a doctoral level program in educational leadership. Student enrollment for the Spring 2006 semester totaled 5,012, including 3,726 undergraduate students and 1,286 graduate students.

BSU's budget is funded by unrestricted revenues, such as tuition and fees and a State general fund appropriation, and restricted revenues, such as federal grants and contracts. According to the State's accounting records, BSU's revenues for fiscal year 2006 totaled approximately \$74.6 million, including a State general fund appropriation of approximately \$22.2 million.

Misappropriation of Federal Grant Funds

In January 2005, BSU became aware of certain questionable disbursements that were charged by a former employee to a grant award from the U.S. Department of Education (USDOE). BSU subsequently reported this matter to the Office of the Attorney General – Criminal Division (OAG-CD), the USDOE, the Governor's Office, and the University System of Maryland (USM). Subsequently, the USM Internal Audit Office and OAG-CD, with assistance from BSU and USDOE, conducted an investigation of this matter. The investigation concluded that, during the period from 2001 through 2003, this employee had misappropriated approximately \$28,000 by submitting and processing numerous fraudulent invoices for payment. Specifically, it was determined that the former employee submitted invoices in the name and address of a relative under the false pretense that the relative had performed work for BSU applicable to the federal grant. As a result of this finding, BSU subsequently revised the internal controls in effect over the grant. The revised controls were reviewed by the USM Internal Audit Office which concluded, in a related report issued in October 2005, that the revised controls over grant activities implemented by BSU were generally adequate.

In a press release, dated April 12, 2006, the OAG-CD reported that the aforementioned former employee pled guilty to one count of felony theft in Prince

George's County Circuit Court. On June 16, 2006, the former employee was sentenced to home detention for a period of 3 years, with all but 6 months suspended, and ordered to pay restitution totaling \$28,000 to the USDOE.

Current Status of Findings From Preceding Audit Report

We reviewed the current status of the 15 findings from our preceding audit report dated December 22, 2004. We determined that BSU satisfactorily addressed eight of these findings. The remaining seven findings are repeated in this report. The seven findings appear as six findings in this report.

Findings and Recommendations

Information Systems Security and Control

Background

BSU's Office of Information Technology provides information technology support to BSU through the operation and maintenance of campus-wide applications, such as the student administration/human resources (SAHR) and the financials systems. BSU also operates an integrated administrative and academic computer network, which provides connections to multiple servers used for administrative and academic purposes. The campus network also includes separate email and file servers, Internet connectivity, and firewalls. In addition, BSU connects to the University of Maryland Academic Telecommunications System network to send and receive data to and from other University System of Maryland (USM) institutions.

Finding 1

BSU's computer network was not adequately secured.

Analysis

Adequate security measures had not been established to protect BSU's critical network devices and administrative systems from external and internal threats. Specifically, we noted the following conditions:

- Numerous publicly accessible servers were located on the internal network rather than in a separate network zone to minimize security risks. These publicly accessible servers, which could potentially be compromised, exposed the internal network to attack from external sources.
- Firewall rules allowed numerous unnecessary connections to portions of BSU's internal network, placing various network devices at risk. For example, we identified at least 140 firewall rules that allowed unnecessary access over numerous ports to many devices in BSU's internal network.
- Key administrative systems were not adequately protected from untrusted portions of the BSU network. Specifically, numerous computer labs located throughout the campus had unnecessary network level access to critical campus administrative resources.

Similar conditions were commented upon in our preceding audit report.

Recommendation 1

We again recommend that BSU improve security over its network. Specifically, we made detailed recommendations which, if implemented, should provide for adequate security over its network.

Finding 2

Administration and monitoring of critical BSU network devices need improvement.

Analysis

Administration and monitoring of critical BSU network devices, capable of protecting the internal network from security risks, need improvement.

Specifically, we noted the following conditions:

- Numerous individuals had unnecessary administrative access, at the network level, to the Internet firewall and a critical core network device. In addition, an insecure connection protocol was enabled on this critical network device for maintenance purposes; and other standard security measures (for example, restricting outbound connections) were not implemented on this device. Access rules for critical network devices should use a “least privilege” security strategy which gives individuals only those privileges needed to perform assigned tasks.
- The Internet firewall’s logs were stored on the device itself and were not recorded on a separate logging server, and the firewall was not configured to send alerts to network administrators advising them of serious concerns detected by the device. Furthermore, log files stored on the firewall were overwritten when filled, resulting in lost logging information. As a result, the log files could be modified by an intruder before they could be used to assist in the review of an attack.
- BSU personnel stated that they did not regularly review the logs for the Internet firewall and for the aforementioned critical network device. In addition, no documentation of any reviews performed was retained.

Recommendation 2

We recommend that administrative access to critical network devices, capable of protecting the internal network from security risks, be limited to personnel requiring such access and that standard security measures be enabled on these devices. We further recommend that logging for BSU’s firewall(s) be recorded on a separate logging server and include alerts to

network administrators for serious concerns detected by the device. Finally, we recommend that logs for all critical network devices be reviewed on a daily basis and that these reviews be documented and retained for audit verification.

Finding 3

Sensitive personal and financial information of BSU students and employees was unnecessarily stored on two administrative servers.

Analysis

Sensitive personal and financial information of BSU students and employees was unnecessarily stored on two administrative servers. Specifically, we noted the following conditions:

- Student names and related social security numbers, transcripts, and dates of birth were stored in plain text on a BSU web server that was publicly accessible. For example, in August 2007, we identified a file on this web server that contained (in plain text) the names and social security numbers of approximately 14,600 students. In addition, on this same web server we identified payroll reports which contained the names, social security numbers, and payroll information for approximately 450 BSU employees. Such information could also be accessible to unauthorized individuals if the related server were compromised.
- Credit card numbers, used by students to make tuition and fee payments, were stored on an internal server in an encrypted format, even though BSU did not have a business need to retain this data. As of October 2007, we identified approximately 3,600 credit card numbers (with associated data such as cardholder names, card type, and card expiration dates) on this server. Furthermore, eight internal user accounts had unnecessary access to view this data in clear text due to an improperly defined security option.

This sensitive personal and financial information residing on these two servers is commonly sought for use in identity theft. Accordingly, appropriate information system security controls need to exist to ensure that this information is safeguarded and is not improperly disclosed. The *USM Guidelines in Response to the State's IT Security Policy* stipulates that institutions must implement measures to protect against disclosure of nonpublic information (such as social security numbers).

Recommendation 3

We recommend that BSU implement procedures to adequately protect all personal and financial information of BSU students and employees. We made detailed recommendations which, if implemented, will provide adequate security over this information. We also recommend that BSU no longer retain credit card information on its system, since there is no business need to do so.

Finding 4

Critical software, which supported BSU's most significant systems, was out of date.

Analysis:

Critical software, which supported BSU's most significant systems, was either no longer supported by the vendor or had not been updated for critical software patches and updates. Specifically, we noted the following conditions:

- The version of the database software used by BSU for the student administration/human resources (SAHR) systems was no longer supported by the software vendor. The database software vendor discontinued support for this version of the software in December 2003. As a result, as of June 2007, the database software was used for more than three and one-half years during which time patches, fixes, and general software updates did not exist.
- As of June 2007, the operating system on the server hosting the SAHR systems had not been updated for numerous security updates released during the period from July 2006 through December 2006. In addition, the related application software had not been updated for two critical patches issued prior to November 2004.

As a result of these conditions, the aforementioned database, application, and server were vulnerable to security exploits. Industry practices for supported products include fixes for security problems and software errors (such as security patches). Accordingly, organizations are advised to operate software products which continue to receive ongoing vendor support. In addition, the *USM Guidelines in Response to the State IT Security Policy* requires that critical devices (such as servers) have software updates and patches installed on a timely basis to correct significant security flaws.

Recommendation 4

We recommend that the BSU comply with the aforementioned USM Guidelines in Response to the State IT Security Policy and keep the software on all critical devices up to date.

Finding 5

BSU did not have adequate backup procedures for critical devices or an adequate disaster recovery plan.

Analysis

BSU did not have adequate backup procedures for critical devices or an adequate disaster recovery plan. Specifically, we noted the following conditions:

- BSU did not periodically back up a critical server and the Internet firewall's configuration. In addition, for network devices and critical servers which were backed up, the backup copies were not stored at an off-site location. Accordingly, if the facilities, which currently house both the original data and the related backup copies, were destroyed, a prolonged interruption of computer operations could occur.
- BSU did not have a complete information technology disaster recovery plan (DRP) for recovering from disaster scenarios (for example, a fire). For example, the DRP did not address alternate site processing arrangements, network connectivity, and plan testing. Without a complete DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring information systems operations above and beyond the expected delays that would exist in a planned recovery scenario.

Similar conditions were commented upon in our preceding audit report.

Recommendation 5

We again recommend that BSU back up all critical devices and store the backups at an offsite, secure, environmentally-controlled location. We also again recommend that BSU develop a disaster recovery plan that, at least, addresses the minimum elements needed for a comprehensive disaster recovery plan.

Finding 6**Controls over system services, monitoring of critical systems, and related account and password controls were inadequate.****Analysis**

Controls over system services, monitoring of critical systems, and account and password controls were inadequate. Specifically, we noted the following conditions:

- Numerous unnecessary services were enabled on critical application and database servers. Unnecessary installed services can be used to take advantage of known vulnerabilities, which can be exploited to maliciously compromise a computer system. A similar condition was commented upon in our preceding audit report.
- Logging of critical security-related events was not enabled for an essential application, a server, and for two critical databases. In addition, for two critical servers where security logs were generated, we were advised that BSU only reviewed these logs on an “as needed” basis and that such reviews were not documented. Similar conditions regarding critical security-related events not being logged were commented upon in our preceding audit report and deficiencies concerning the review of security logs were commented upon in our five preceding audit reports.
- Account and password controls over certain critical systems did not comply with the *USM Guidelines in Response to the State IT Security Policy*. For example, for critical database servers, password aging, password history, and account lockout requirements were not enforced. In addition, 200 active user accounts on the SAHR systems were unused for periods of 12 to 43 months, and many active accounts were assigned to terminated employees on three critical servers and one application. Furthermore, identical account and password information for at least 6,800 users existed on the production and non-production server versions of the system used to authenticate users on the SAHR systems, increasing the risk that production accounts could be compromised. Similar conditions were commented upon in our preceding audit report.

Recommendation 6

We again recommend that BSU only enable necessary services on critical servers. We further recommend that BSU enable logging capabilities for all significant security events on critical applications, servers, and databases,

and review these logs on a daily basis. We also again recommend that these reviews be documented for audit verification. Finally, we again recommend that BSU comply with account and password requirements and recommendations of the *USM Guidelines in Response to the State IT Security Policy*; we made detailed recommendations to BSU which, if implemented, should provide adequate security in this area.

Student Accounts Receivable

Finding 7

BSU did not always take appropriate action to collect outstanding student account balances.

Analysis

BSU did not always take appropriate action, as specified in the USM Board of Regents' *Policy on Payment of Tuition and Fees*, to collect outstanding student account balances. According to BSU records, the aggregate balance of the detail student accounts receivable records totaled approximately \$1.3 million as of June 30, 2007, of which approximately \$1 million was at least 120 days old. Our test of 30 unpaid student accounts totaling approximately \$300,000 disclosed the following conditions:

- BSU had permitted 11 of these students, with account balances totaling \$128,000, to register for and attend classes even though the outstanding balances were not covered by a USM policy exemption (such as pending financial aid). For example, one student was permitted to register for six consecutive semesters even though the student had a delinquent account balance at the time of each registration and had never paid more than half of the charges applicable to any of the six preceding semesters. As of June 30, 2007, this student's account balance totaled \$8,358.
- BSU did not always transfer delinquent student accounts to the Department of Budget and Management – Central Collection Unit (CCU) as required. Specifically, of the 30 aforementioned accounts, 8 accounts totaling approximately \$97,000 had been delinquent for periods ranging from 11 to 23 months before BSU transferred the accounts to CCU. Furthermore, as of June 30, 2007, BSU had not transferred to CCU for collection assistance 7 other accounts tested totaling approximately \$80,000 even though the accounts were delinquent for periods ranging from 6 to 36 months.

Similar conditions were commented upon in our preceding audit report.

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 stipulated due date unless the student is covered by a specified exemption; 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 BSU, require that each semester's delinquent accounts be transferred to CCU at the end of the late registration period for the subsequent semester.

Recommendation 7

We again recommend that BSU enforce the Board of Regents' *Policy on Payment of Tuition and Fees* to improve collection of unpaid student accounts receivable. Specifically, we again recommend that BSU not permit students with outstanding account balances to register for subsequent semesters except for students that qualify for an exemption as specified in the Board's policy. We also again recommend that BSU transfer all delinquent accounts to CCU on a timely basis, as required.

Finding 8

BSU lacked adequate controls over non-cash credit adjustments.

Analysis

Controls over non-cash credit adjustments were inadequate. Specifically, these adjustments were recorded in the automated student accounts receivable system without independent review and approval by supervisory personnel. In addition, during the audit period, certain employees who had performed cashiering duties also had system access privileges that enabled them to record non-cash credit adjustments to student accounts. Moreover, due to the lack of related output reports, BSU did not verify the propriety of non-cash credit adjustments recorded in the automated system. Non-cash credit adjustments were used to record significant transactions such as account transfers to CCU, certain federal loan payments, and tuition remission granted for USM employees.

As a result of these conditions, BSU lacked assurance regarding the propriety of non-cash credit adjustments recorded to student accounts and erroneous adjustments could be recorded to conceal misappropriations of cash receipts without detection. According to BSU's records, during fiscal year 2006, non-cash credit adjustments recorded in student accounts totaled approximately \$2.3 million.

Recommendation 8

We recommend that all non-cash credit adjustments be reviewed and approved by independent supervisory personnel prior to being recorded in the applicable student accounts. We also recommend that employees with access to cash receipts not have the capability to record such adjustments. In addition, we recommend that output reports identifying all recorded non-cash credit adjustments be generated and that these reports be reviewed by an independent employee, at least on a test basis, to verify that such adjustments were supported and properly authorized. We advised BSU on accomplishing the necessary separation of duties using existing personnel.

Finding 9

Controls over student refund payments were inadequate.

Analysis

Controls over student refund payments were inadequate. Specifically, the accounting employee who reviewed the related student accounts to ensure the propriety of refund payments was not independent of the cash receipts process. Moreover, this employee also recorded non-cash credit adjustments to student accounts and generated the disbursement transmittal listings that were sent to the State Comptroller's General Accounting Division to generate student refund checks. These non-cash credit adjustments, which were not reviewed and approved by supervisory personnel (as disclosed in Finding 8), could cause student accounts to have credit balances which would require the subsequent issuance of refund payments. As a result, unauthorized refund payments could be issued and not readily detected by BSU management. According to its records, BSU processed student refund payments that totaled approximately \$15.3 million during fiscal year 2006.

Recommendation 9

We recommend that an independent supervisory employee approve the refund disbursement transmittal listings and review documentation supporting the individual refund payments prior to submitting the lists to the General Accounting Division for processing. We further recommend that such reviews be documented and retained for future reference.

Finding 10

BSU had not established adequate controls over tuition related to an educational partnership program offered to students employed as teachers by a local public school system.

Analysis

BSU had not established adequate controls over tuition related to an educational partnership program offered to students who were employed as teachers by a local public school system. In September 2005, BSU, in conjunction with the school system, established three academic programs so that teachers could become highly qualified professionals by successfully completing certain relevant coursework. The related agreements stipulate that the school system will pay \$125 per credit hour and the participating students will pay \$50 per credit hour for program courses taken. In addition, the agreements require the school system to provide written authorization for those teachers participating in the program. We noted the following conditions:

- Although the participating students' tuition applicable to the program and related payments were recorded and accounted for in BSU's automated student accounts receivable system, the school system's portion of tuition and related payments were not similarly recorded and accounted for.
- Certain payments made by students when initially registering for the program were received by the academic program chairperson who also processed the related student registrations.
- Although BSU did verify that new students entering the program were authorized by the school system to participate in the program, BSU did not verify that returning students were authorized by the school system to continue participation in the program, as required.

As a result of these conditions, BSU lacked assurance that tuition had been paid for all students enrolled in the program, that related payments received from students were deposited, and that management would readily detect any misappropriations that could have occurred.

Since the inception of the partnership, related billings to the school system totaled approximately \$492,000 as of July 11, 2007.

Recommendation 10

We recommend that BSU use its automated student accounts receivable system to account for tuition and related payments applicable to the aforementioned educational program. We also recommend that BSU require that all related payments be remitted directly to its Office of Student Accounts and that the program chairperson immediately discontinue accepting such payments. In addition, we recommend that BSU verify, for each completed semester as well as for each future semester, that all students participating in the program have been authorized by the local school system.

Corporate Purchasing Cards

Finding 11

BSU lacked adequate documentation over corporate purchasing card purchases and did not always comply with related policies and procedures.

Analysis

BSU lacked adequate documentation over corporate purchasing card purchases and did not always comply with related policies and procedures. Specifically, we noted the following conditions:

- Purchases made by cardholders were not always supported by vendor invoices and approved by supervisory personnel as required. Our test of corporate card purchases totaling \$82,998 that were made during fiscal years 2006 and 2007 disclosed that purchases totaling \$33,173 were not supported by vendor invoices. For example, BSU lacked documentation to support all 26 purchases, totaling \$14,446, that were made by one employee during the month of September 2006. Furthermore, our test disclosed that purchases totaling \$29,290 were not approved by supervisory personnel. In addition, during our test, we were unable to verify that any purchases made by cardholders during March 2006, which totaled \$98,000, were supported and approved by supervisory personnel because BSU was unable to provide us with the related transaction logs and vendor invoices.
- BSU did not always promptly close purchasing card accounts when cardholders terminated their employment with BSU or did not use their assigned cards for extended periods. Our test of 20 accounts closed during our audit period disclosed that BSU allowed 6 accounts to remain open for periods ranging from 3 to 9 months after the applicable cardholders terminated their employment. Our test also disclosed that BSU did not close

the accounts timely for 5 other cardholders when these employees did not use their assigned cards for periods ranging from 7 to 13 months.

Similar conditions were commented upon in our preceding audit report. As of March 2007, 75 BSU employees had active purchasing cards. During fiscal year 2006, program expenditures totaled approximately \$850,000.

The Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual* requires that all purchases be supported by vendor invoices, that cardholder supervisors approve all monthly purchase transaction logs, and that recorded transactions be reconciled to the related bank statements. In addition, the *Manual* requires that a purchase account be closed promptly when the related cardholder terminates State service. Furthermore, BSU's *Corporate Purchasing Card Policy and Procedure User's Guide* provides that cards may be revoked if not used for six consecutive months.

Recommendation 11

We again recommend that BSU comply with the requirements of the Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual*, and the BSU *Corporate Purchasing Card Policy and Procedure User's Guide*. We also recommend that BSU investigate and determine the propriety of the aforementioned unsupported purchases identified during our audit and take appropriate action, including referral to the Office of the Attorney General – Criminal Division, if warranted.

Electronic Fund Transfers

Finding 12

Internal controls over electronic transfers of federal financial aid funds were inadequate.

Analysis

BSU lacked adequate controls to ensure that requested transfers of federal financial aid funds were properly credited to the appropriate BSU accounts. In this regard, we were advised by the United States Department of Education (USDOE) that it would transfer funds to any bank account requested by BSU, provided that the request was submitted on official BSU letterhead and was signed by a BSU representative. In addition, one employee requested transfers of federal financial aid funds without supervisory review of the fund transfers, and BSU did not request that USDOE confirm the propriety of these fund transfers with BSU supervisory personnel prior to the transfers being processed.

Furthermore, this same employee received and verified the fund transfer receipt confirmations issued by the State Treasurer's Office (STO). As a result of these conditions, unauthorized fund transfers could be made without timely detection.

BSU primarily receives federal funds from USDOE for certain student grants and loans. According to its records, during fiscal year 2006, BSU received federal financial aid that totaled approximately \$26 million.

Recommendation 12

We recommend that all requests for electronic fund transfers and new bank accounts related to federal financial aid funds be reviewed and approved by independent supervisory personnel. We also recommend that this independent employee compare the approved drawdown requests with USDOE records of cumulative drawdowns, at least weekly, to verify that the drawdowns were appropriate. In addition, we recommend that BSU request USDOE to confirm with designated independent BSU personnel, prior to processing, the propriety of all fund transfers requested. Finally, we recommend that this employee verify, by examining and signing the related written confirmations received from the STO, that all authorized fund transfers were received by the STO and credited to BSU. We advised BSU on accomplishing the necessary separation of duties using existing personnel.

Controls Over Critical Data

Finding 13

Sufficient controls were not in place to ensure the propriety of certain critical student data maintained on BSU's automated systems.

Analysis

BSU did not adequately control the propriety of certain critical student data maintained on its automated systems. We noted the following conditions:

- BSU was substantially in arrears in completing verifications of financial aid awards recorded to student accounts. As of May 2007, BSU had only partially completed verifications to ensure the propriety of awards recorded in individual student accounts applicable to fiscal years 2005 and 2006, and BSU had not verified the propriety of any recorded awards applicable to fiscal year 2007. In addition, the verifications that had been completed were performed by an employee who could modify student account information and, therefore, was not independent of the financial aid process. During fiscal year 2006, financial aid awarded to students totaled approximately \$36.1 million.

- Independent verifications to ensure the accuracy of student residency determinations were not performed. Specifically, the verifications performed were completed by an employee who could record and modify student residency in BSU's automated system. In addition, reclassifications of residency status (such as, from out-of-state to in-state tuition status) were not verified and approved by supervisory personnel. Furthermore, BSU could not readily perform the necessary verifications because it lacked output reports identifying such transactions.

In addition, our test of 12 student accounts disclosed that, for 3 students receiving in-state tuition rates, the related documentation indicated that these students were not Maryland residents. As a result, it appeared that BSU had undercharged these 3 students a total of \$12,129 for the Fall 2006 semester (the difference between in-state and out-of-state tuition rates). Student residency is a critical data element because of the significant differences between in-state and out-of-state student tuition rates. For example, full-time undergraduate tuition charges for the 2006-2007 academic year were \$4,286 for Maryland residents and \$13,805 for non-residents – a difference of \$9,519.

- Independent verifications of changes made to recorded student grades were not performed. In addition, these verifications could not be readily performed because BSU did not generate automated output reports identifying such changes. As a result of these conditions, BSU lacked assurance that all changes to student grades were supported by properly authorized student grade change forms. We were advised by BSU management that approximately 650 grade changes were processed during the Fall 2006 and Spring 2007 semesters.

As a result of these conditions, errors or irregularities in recorded financial aid awards, student residency data, and recorded student grades could occur without detection. Deficiencies in the verification of financial aid awards and student residency data were commented upon in our preceding audit report.

Recommendation 13

We again recommend that independent employees perform timely verifications, at least on a test basis, of the award amounts posted to student accounts receivable records and of the student residency data recorded in the student records. We also recommend that BSU complete the outstanding verifications of financial aid awards for fiscal years 2005, 2006, and 2007. In addition, we recommend that BSU generate output reports to identify changes to recorded student residency data and to student grades and

perform timely, independent supervisory reviews of such changes by comparing them to approved source documents. Finally, we recommend that BSU identify any students that were inappropriately charged in-state tuition rates, including the three students identified by our audit, and assess any additional tuition charges due. We advised BSU on accomplishing the necessary separation of duties using existing personnel.

Finding 14

BSU did not ensure that user access to certain critical automated applications was proper.

Analysis

BSU did not periodically generate and review system security reports to ensure that user access capabilities assigned to certain critical automated applications (including student accounts receivable, financial aid, and payroll) were proper. As a result, BSU lacked assurance that user capabilities were assigned in a manner that properly segregated critical functions and that only granted employees those capabilities needed to perform their assigned duties.

Our review of all 149 active system users assigned to these critical applications disclosed that 20 employees were granted access privileges that were not required for the employees to perform their assigned duties and each could perform the described transactions without supervisory approval being required. We noted that 11 of these employees had system access privileges that enabled them to change recorded student academic grades, 7 employees (including one former employee) could change recorded student residency data, and 2 employees could create electronic receiving reports and/or add vendors to the related accounts payable database.

Recommendation 14

We recommend that BSU periodically generate computer system security reports and use these reports to evaluate assigned user access privileges. We further recommend that BSU grant specific user access privileges only to those employees who require such privileges to perform their assigned job duties, and in a manner that ensures such duties are properly segregated.

Equipment

Finding 15

BSU had not investigated, as of June 2007, certain equipment items totaling \$1.9 million that were not located during its calendar year 2006 physical inventory.

Analysis

BSU had not investigated certain equipment items that were not located during its November 2006 physical inventory. According to BSU's records, the physical inventory that was performed disclosed missing equipment items totaling approximately \$1.9 million from 11 departments that had not been resolved as of June 2007. For example, equipment items (such as computer equipment and digital cameras) totaling approximately \$342,000 that had been assigned to the School of Education were not located and, as of the time of our audit, had not been investigated.

Upon completion of the calendar year 2006 inventory, BSU notified the applicable departments to investigate the missing items and to report the results of their investigations. According to BSU's *Asset Management Policy and Procedures Manual*, inventory coordinators are responsible for all equipment assigned to their respective departments including locating such equipment during physical inventories. The *Manual* also requires that inventory coordinators, upon being notified of missing equipment items, submit a verifiable written explanation regarding the status of missing items within 10 days.

Recommendation 15

We recommend that BSU promptly complete its investigation of all equipment items identified as missing during its calendar year 2006 physical inventory. We also recommend that the results of all future physical inventories be reconciled to the related detail records and that missing equipment items be investigated in a timely manner.

Audit Scope, Objectives, and Methodology

We have audited the University System of Maryland (USM) – Bowie State University (BSU) for the period beginning January 13, 2004 and ending April 30, 2007. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine BSU's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the current 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 BSU'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 bond financing) provided to BSU by the USM Office. These support services are included within the scope of our audits of the USM Office. In addition, we did not audit BSU's federal financial assistance programs for compliance with federal laws and regulations 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.

Our audit scope was limited with respect to BSU'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 BSU 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.

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

The response from the USM Office, on behalf of BSU, 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 15, 2008

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

Re: Audit of University System of
Maryland – Bowie State University
Period of Audit – January 13, 2004 to
April 30, 2007

Dear Mr. Myers:

I am enclosing the University System of Maryland – Bowie State University's responses to your draft report covering the examination of the accounts and records of Bowie State University. Our comments refer to the individual items contained in the report.

Sincerely,

William E. Kirwan
Chancellor

Enclosure

WEK:mpk

cc: Dr. Mickey Burnim, President, Bowie State University
Mr. Clifford M. Kendall, Chair, Board of Regents
Mr. Robert Page, Comptroller, USM Office
Dr. James E. Lyons, Sr., Secretary of Higher Education
Mr. Kevin M. O'Keefe Chair, Maryland Higher Education Commission

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

Information Systems Security and Control

Finding 1

BSU's computer network was not adequately secured.

Recommendation 1

We again recommend that BSU improve security over its network. Specifically, we made detailed recommendations which, if implemented, should provide for adequate security over its network.

Bowie State University Response: The University agrees with the recommendation. BSU has initiated actions to implement the recommendations and will continue to implement all recommendations towards a November 2008 completion.

Finding 2

Administration and monitoring of critical BSU network devices need improvement.

Recommendation 2

We recommend that administrative access to critical network devices, capable of protecting the internal network from security risks, be limited to personnel requiring such access and that standard security measures be enabled on these devices. We further recommend that logging for BSU's firewall(s) be recorded on a separate logging server and include alerts to network administrators for serious concerns detected by the device. Finally, we recommend that logs for all critical network devices be reviewed on a daily basis and that these reviews be documented and retained for audit verification.

Bowie State University Response: The University agrees with the recommendation. BSU has implemented changes to limit access to critical network devices to personnel requiring such access and initiated enabling standard security measures of these devices. The University has initiated record logging on a separate logging server and will include alerts to network administrators for serious concerns detected by the device. The University will review logs for all critical network devices and the review will be documented and retained for verification.

Finding 3

Sensitive personal and financial information of BSU students and employees was unnecessarily stored on two administrative servers.

Recommendation 3

We recommend that BSU implement procedures to adequately protect all personal and financial information of BSU students and employees. We made detailed recommendations which, if implemented, will provide adequate security over this information. We also recommend that BSU no longer retain credit card information on its system, since there is no business need to do so.

Bowie State University Response: The University agrees with the recommendation. BSU will implement procedures to adequately protect all personal and financial information of BSU students and employees. BSU no longer retains credit card information on its system.

Finding 4

Critical software, which supported BSU's most significant systems, was out of date.

Recommendation 4

We recommend that the BSU comply with the aforementioned USM *Guidelines in Response to the State IT Security Policy* and keep the software on all critical devices up to date.

Bowie State University Response: The University agrees with the recommendation. BSU will comply with the USM Guidelines in Response to the State IT Security Policy and is keeping the software on all critical devices up to date.

Finding 5

BSU did not have adequate backup procedures for critical devices or an adequate disaster recovery plan.

Recommendation 5

We again recommend that BSU back up all critical devices and store the backups at an offsite, secure, environmentally-controlled location. We also again recommend that BSU develop a disaster recovery plan that, at least, addresses the minimum elements needed for a comprehensive disaster recovery plan.

Bowie State University Response: The University agrees with the recommendation. BSU will continue to backup systems and have added all critical devices to the backup process. All of the backups are sent for storage at an offsite, secure, environmentally

controlled location. BSU will complete the BSU Disaster Recovery Plan to address the minimum elements needed for a comprehensive disaster recovery plan.

Finding 6

Controls over system services, monitoring of critical systems, and related account and password controls were inadequate.

Recommendation 6

We again recommend that BSU only enable necessary services on critical servers. We further recommend that BSU enable logging capabilities for all significant security events on critical applications, servers, and databases, and review these logs on a daily basis. We also again recommend that these reviews be documented for audit verification. Finally, we again recommend that BSU comply with account and password requirements and recommendations of the USM *Guidelines in Response to the State IT Security Policy*; we made detailed recommendations to BSU which, if implemented, should provide adequate security in this area.

Bowie State University Response: Bowie State University agrees with the recommendation. The University will only enable necessary services on critical servers. The University is in the process of enabling logging capabilities for all significant security events on critical applications, servers, and databases. The University will review these logs on a daily basis, document these reviews, and retain the documentation for audit verification. The University will comply with account and password requirements established in the USM Guidelines in Response to the State IT Security Policy as detailed in the audit report.

Student Accounts Receivable

Finding 7

BSU did not always take appropriate action to collect outstanding student account balances.

Recommendation 7

We again recommend that BSU enforce the Board of Regents' *Policy on Payment of Tuition and Fees* to improve collection of unpaid student accounts receivable. Specifically, we again recommend that BSU not permit students with outstanding account balances to register for subsequent semesters except for students that qualify for an exemption as specified in the Board's policy. We also again

recommend that BSU transfer all delinquent accounts to CCU on a timely basis, as required.

Bowie State University Response: The University agrees with the recommendation. The University will strictly enforce the Board of Regents' *Policy on Payment of Tuition and Fees*. Students with outstanding balances in the prior term will not be allowed to register or receive transcripts. Business Office holds, which restrict the student's ability to register or obtain a transcript, will continue to be placed on any student account with an overdue balance. A report to identify any student who has registered and has a prior balance has been developed and will be monitored beginning with the current term. Delinquent accounts will be more closely monitored to ensure that all delinquent accounts are submitted to CCU on a timely basis.

Finding 8

BSU lacked adequate controls over non-cash credit adjustments.

Recommendation 8

We recommend that all non-cash credit adjustments be reviewed and approved by independent supervisory personnel prior to being recorded in the applicable student accounts. We also recommend that employees with access to cash receipts not have the capability to record such adjustments. In addition, we recommend that output reports identifying all recorded non-cash credit adjustments be generated and that these reports be reviewed by an independent employee, at least on a test basis, to verify that such adjustments were supported and properly authorized. We advised BSU on accomplishing the necessary separation of duties using existing personnel.

Bowie State University Response: The University agrees with the recommendation. Non-cash adjustments are now reviewed and approved by supervisory personnel prior to being recorded. Output reports have been designed and are reviewed on a test basis by an independent employee to ensure that all entries are supported and properly authorized. The access for the employee who had access to cash receipts and process non-cash adjustments has been corrected and the employee no longer has access to cash receipts.

Finding 9

Controls over student refund payments were inadequate.

Recommendation 9

We recommend that an independent supervisory employee approve the refund disbursement transmittal listings and review documentation supporting the

individual refund payments prior to submitting the lists to the General Accounting Division for processing. We further recommend that such reviews be documented and retained for future reference.

Bowie State University Response: The University agrees with the recommendation. Supervisory personnel are now verifying student refund disbursement transmittal lists to detail supporting documentation on a test basis prior to submitting the lists to General Accounting Division for processing. The verification process is documented and retained for audit reference.

Finding 10

BSU had not established adequate controls over tuition related to an educational partnership program offered to students employed as teachers by a local public school system.

Recommendation 10

We recommend that BSU use its automated student accounts receivable system to account for tuition and related payments applicable to the aforementioned educational program. We also recommend that BSU require that all related payments be remitted directly to its Office of Student Accounts and that the program chairperson immediately discontinue accepting such payments. In addition, we recommend that BSU verify, for each completed semester as well as for each future semester, that all students participating in the program have been authorized by the local school system.

Bowie State University Response: The University agrees with the recommendation. The process has been established to ensure that all charges that are the responsibility of the student are recorded in the student's detail account. All payments related to the program will be received directly by the Student Account Office; the program personnel will direct any student wishing to make payment to that office. The local school system billing authorization will be verified for all participants.

Corporate Purchasing Cards

Finding 11

BSU lacked adequate documentation over corporate purchasing card purchases and did not always comply with related policies and procedures.

Recommendation 11

We again recommend that BSU comply with the requirements of the Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual*, and the *BSU Corporate Purchasing Card Policy and Procedure User's Guide*. We also recommend that BSU investigate and determine the propriety of the aforementioned unsupported purchases identified during our audit and take appropriate action, including referral to the Office of the Attorney General – Criminal Division, if warranted.

Bowie State University Response: The University agrees with the recommendation and will comply with the Comptroller of the Treasury's Corporate Purchasing Card Program Policy and Procedures Manual, and the BSU Corporate Purchasing Card Policy and Procedure User's Guide. All Cardholder Transactions Logs are being reviewed on a monthly basis and appropriate administrative action is being taken to ensure Cardholder compliance with the policy and procedures. The University has completed the investigation and determined that the unsupported purchases were authorized and appropriate business related expenditures.

Electronic Fund Transfers

Finding 12

Internal controls over electronic transfers of federal financial aid funds were inadequate.

Recommendation 12

We recommend that all requests for electronic fund transfers and new bank accounts related to federal financial aid funds be reviewed and approved by independent supervisory personnel. We also recommend that this independent employee compare the approved drawdown requests with USDOE records of cumulative drawdowns, at least weekly, to verify that the drawdowns were appropriate. In addition, we recommend that BSU request USDOE to confirm with designated independent BSU personnel, prior to processing, the propriety of all fund transfers requested. Finally, we recommend that this employee verify, by examining and signing the related written confirmations received from the STO, that all authorized fund transfers were received by the STO and credited to BSU. We advised BSU on accomplishing the necessary separation of duties using existing personnel.

Bowie State University Response: The University agrees with the recommendation. Electronic fund transfers are now reviewed and approved by supervisory personnel. Any new bank account requested would also be approved by that individual. An employee independent of the drawdown process now has access to USDOE records and verifies

that all drawdowns recorded in USDOE records were approved by supervisory personnel and that all drawdown amounts were credited to the University. University personnel contacted USDOE regarding confirmation of the validity of fund transfers prior to transfer; we were informed that the system is automated and that such confirmation prior to transfer was not possible.

Controls Over Critical Data

Finding 13

Sufficient controls were not in place to ensure the propriety of certain critical student data maintained on BSU's automated systems.

Recommendation 13

We again recommend that independent employees perform timely verifications, at least on a test basis, of the award amounts posted to student accounts receivable records and of the student residency data recorded in the student records. We also recommend that BSU complete the outstanding verifications of financial aid awards for fiscal years 2005, 2006, and 2007. In addition, we recommend that BSU generate output reports to identify changes to recorded student residency data and to student grades and perform timely, independent supervisory reviews of such changes by comparing them to approved source documents. Finally, we recommend that BSU identify any students that were inappropriately charged in-state tuition rates, including the three students identified by our audit, and assess any additional tuition charges due. We advised BSU on accomplishing the necessary separation of duties using existing personnel.

Bowie State University Response: The recommendation that BSU complete the outstanding verification of financial aid awards for fiscal years 2005, 2006, and 2007 was not included in earlier discussion with the University. The recommendation will have to be evaluated to consider the cost of implementation compared to the potential risk to the University.

The University agrees with the remainder of the recommendations. The Office of Student Financial Aid has designated an employee independent of the award process to verify, on a test basis, award amounts posted to student accounts receivable records. The review will be completed monthly. Questionable awards will be reported to the Financial Aid Director for follow-up.

The residency report to identify changes to recorded student residency data has been created. An employee independent of residency determination and reclassification process is responsible for verifying, on a test basis, that the residency status recorded in student records agrees with related documents each semester beginning with fall 2007

term. The three students identified in the report that were inappropriately charged in-state tuition rates, have had additional charges assessed to their accounts. If additional instances are identified in the review process, additional charges will be assessed.

Finding 14

BSU did not ensure that user access to certain critical automated applications was proper.

Recommendation 14

We recommend that BSU periodically generate computer system security reports and use these reports to evaluate assigned user access privileges. We further recommend that BSU grant specific user access privileges only to those employees who require such privileges to perform their assigned job duties, and in a manner that ensures such duties are properly segregated.

Bowie State University response: The University agrees with the recommendation. BSU will create and generate periodic computer system security reports detailing assigned user access privileges. The reports will be reviewed and specific user access privileges will be granted only to those employees who require such privileges to perform their assigned job duties and in a manner that ensures such duties are properly segregated. Security reports from all modules will be completed by November 2008, upon completion of application and security upgrades to version 9.0.

Equipment

Finding 15

BSU had not investigated, as of June 2007, certain equipment items totaling \$1.9 million that were not located during its calendar year 2006 physical inventory.

Recommendation 15

We recommend that BSU promptly complete its investigation of all equipment items identified as missing during its calendar year 2006 physical inventory. We also recommend that the results of all future physical inventories be reconciled to the related detail records and that missing equipment items be investigated in a timely manner.

Bowie State University Response: The University agrees with the recommendation. The University has completed its investigation of all equipment items identified as missing during its calendar year 2006 physical inventory. Equipment records have been

adjusted to reflect the results of the investigation. The University physical inventory process has been revised to ensure that the results of all future physical inventories will be reconciled to the related detail records and missing equipment items are investigated in a timely manner. The University is reconciling the inventory related detail records of each department as soon as that department's physical inventory is completed. This process is being monitored weekly by supervisory personnel to ensure that the schedule is maintained.

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