

Audit Report

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**Morgan State University**

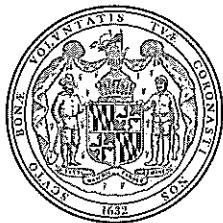
July 2011

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

July 15, 2011

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Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited Morgan State University (MSU) for the period beginning February 1, 2007 and ending March 23, 2010. MSU is the State's public urban university and operates under a Board of Regents. MSU offers baccalaureate, masters, and doctoral programs with emphasis in education, business, engineering, and the sciences.

Our audit disclosed that MSU did not ensure the propriety of certain scholarships posted to student accounts and, as a result, students may not have been awarded the proper amount of financial aid. Controls were also inadequate to ensure that certain scholarships were terminated when the requirements were not met.

Adequate controls were not established over grant collections and related receivables, and collections recorded in the grant receivable records exceeded grant collections recorded in the automated system by \$1.5 million. MSU also did not establish independent online approvals for critical transactions, did not review and approve initial student residency status determinations, and did not always take appropriate actions to collect outstanding student accounts, in violation of MSU policy. MSU lacked adequate internal controls over several other critical activities including payroll processing, and information systems.

An executive summary of our findings can be found on page 5. MSU's response to this audit is included as an appendix to this report.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



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# Executive Summary

## Legislative Audit Report on Morgan State University (MSU) July 2011

- **Honors and Athletic scholarships and certain direct loan adjustments posted to student accounts were not verified by independent supervisory personnel, and controls regarding continued eligibility for Honors and Athletic scholarships were inadequate.**

MSU should ensure that scholarship transactions and direct loan adjustments posted to student accounts are verified by independent supervisory personnel. MSU also needs to ensure that scholarships of students who fail to meet eligibility requirements are terminated.

- **Adequate controls were not established over grant collections and outstanding grant receivables. For example, the employee who processed grant collections also recorded payments in the grant receivable records and, as of August 5, 2010, collections recorded in the receivable records exceeded collections in the automated system by \$1.5 million. In addition, MSU did not take appropriate and timely action to collect outstanding grants, as required by CCU regulations.**

MSU should ensure that the employee who maintains the grant receivable records does not have access to the related collections, and MSU should reconcile grant collections recorded in its receivable records to the collections deposited and recorded on its automated system and should resolve the aforementioned difference. MSU should also pursue collection of all amounts due from grantors and comply with the related CCU requirements.

- **MSU did not use available security features in its automated system by establishing independent online approval requirements for certain critical transactions and did not ensure that employee access to certain critical functions was properly restricted.**

MSU should use the available security features of its automated system by establishing online approval requirements for all critical transactions. MSU should also assign specific user access capabilities to only those employees who require such capabilities to perform their normal job duties.

- **Initial student residency status determinations, which impact student tuition rates, and subsequent changes were not reviewed and approved by independent supervisory personnel.**

MSU should ensure that independent supervisory personnel review student residency status determinations and subsequent changes, and that such reviews are properly documented.

- **MSU did not always transfer delinquent student account balances to the State's Central Collection Unit (CCU) timely and did not always prevent students with outstanding balances from registering for classes, as required by MSU policy.**

MSU should promptly forward delinquent accounts to CCU and should not permit students with outstanding account balances to register for subsequent semesters unless satisfactory financial arrangements have been made.

- **Twelve MSU employees had the ability to prepare and modify the electronic timesheets of any MSU employee without review by independent supervisory personnel. Also, controls for overtime were inadequate, resulting in certain employees receiving questionable overtime compensation.**

MSU should revise system capabilities to ensure that all electronic timesheets are reviewed and approved by independent supervisory personnel. MSU should also ensure that adequate supporting documentation is prepared and reviewed during payroll processing to support overtime paid to employees, investigate the questionable overtime payments, and recover any improper payments made.

- **Certain information system security deficiencies existed. For example, MSU's internal network was not properly secured and controls over passwords were inadequate.**

MSU should improve security over its internal network and take other recommended corrective actions.

## **Background Information**

### **Agency Responsibilities**

Morgan State University (MSU), which is the State's public urban university, offers baccalaureate, masters, and doctoral programs with emphasis in education, business, engineering, and the sciences. MSU is governed by a Board of Regents appointed by the Governor with the advice and consent of the Senate. Based on MSU's records, its student population for the Fall 2010 semester totaled 7,806, including 6,623 undergraduate students and 1,183 graduate students. MSU's budget is funded by unrestricted revenues, such as tuition and fees, a State general fund appropriation, and restricted revenues, such as federal grants and contracts. According to the State's records, MSU revenues for fiscal year 2010 totaled approximately \$200.6 million, including a State general fund appropriation of approximately \$71.7 million.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the 17 findings contained in our preceding audit report dated February 8, 2008. We determined that MSU satisfactorily addressed 16 of the findings. The remaining finding is repeated in this report.

Several findings in our preceding audit report included comments regarding significant deficiencies relating to MSU's management and oversight of its capital improvement projects. As a result of these findings, we referred certain questionable matters to the Office of the Attorney General's Criminal Division. During our current audit, we were advised by Division personnel that these matters were still under investigation. Consequently, our audit did not include a review of the status of the portions of prior findings relating to these matters.



# Findings and Recommendations

## Student Financial Aid

### **Finding 1**

**Independent verifications were not always performed to ensure the propriety of scholarships and certain loan adjustments posted to student accounts.**

### **Analysis**

Scholarships were awarded by the Honors Program and Athletic Department, and were then conveyed to the Financial Aid Office, via award forms or email, for posting to student accounts. However, scholarships posted to student accounts by the Financial Aid Office were not verified to supporting documentation (such as scholarship award letters accepted by the students) by supervisory personnel independent of the financial aid award posting process. As a result, MSU lacked assurance that Honors and Athletic scholarship awards posted to student accounts were proper.

Furthermore, our test of students awarded Athletic and Honors scholarships disclosed that the financial aid posted to student accounts did not always agree to the scholarship records approved by the Athletic Department and the Honors Program. Specifically, our test of Athletic scholarships awarded to five students for the 2009-2010 academic year disclosed that the scholarships posted to three students' accounts were collectively approximately \$21,900 less than the amounts determined by the Athletic Department, and scholarships posted to the remaining two students' accounts collectively exceeded the amounts determined by the Department by approximately \$8,700. In addition, our test of Honors scholarships awarded to three students for the 2010-2011 academic year disclosed that the scholarship posted to one student's account was approximately \$2,000 less than the amount determined by the Honors Program. Athletic Department, Honors Program, and Financial Aid Office personnel could not readily explain these discrepancies because documentation used by the Financial Aid Office to post awards (such as award forms or emails) was not retained by the Financial Aid Office.

In addition, certain adjustments relating to federal direct loans posted to student accounts by financial aid employees were not reviewed and approved by independent supervisory personnel. For example, flags were placed on student accounts in MSU's automated system in certain instances (for example, for failure to maintain satisfactory academic progress) to prevent additional loans from being

posted to the students' accounts. However, supervisory personnel did not review and approve the propriety of the subsequent removal of the flags from the student accounts.

According to MSU's records, during fiscal year 2010, Honors and Athletic scholarship awards totaled approximately \$5.2 million and \$3.3 million, respectively, and federal direct loans awarded to students totaled approximately \$58.9 million.

### **Recommendation 1**

**We recommend that MSU**

- a. ensure that supervisory personnel independent of the financial aid award process verify the propriety of financial aid transactions posted to student accounts, and that such verifications be documented; and**
- b. review previously awarded scholarships, including the aforementioned student aid accounts, for any discrepancies in scholarships posted to student accounts, investigate those discrepancies, and make any necessary adjustments to the accounts.**

### **Finding 2**

**Internal controls over the continued eligibility of Honors and Athletic scholarships were inadequate.**

### **Analysis**

MSU had not established adequate internal controls regarding the continued eligibility of individuals awarded Honors and Athletic scholarships. Specifically, although students in the Honors Program were monitored to identify students that were not enrolled in at least 12 credit hours per semester, the monitoring process was not adequately documented. In this regard, the electronic reports used by the Honors Program to monitor student course loads did not contain the number of credit hours assigned to each course taken, and Honors Program personnel did not document their determination of the credit hours taken by each student.

In addition, Honors scholarships were not always terminated and required to be repaid by the student for the current semester, as required by MSU's written policy, when the student withdrew from classes after the mid-term period, resulting in the student falling below the 12 credit hour requirement. Our review of 17 students, that were initially awarded Honors scholarships for the Fall 2009 semester, disclosed 3 students that received scholarships totaling \$8,500 who were enrolled in fewer than 12 credit hours at the end of the semester after withdrawing from certain classes after the mid-term period, yet the scholarships for that semester were not terminated. According to MSU records, there were

approximately 400 students that were awarded Honors scholarships in the Fall 2009 semester.

Furthermore, in instances in which the Honors Program and Athletics Department personnel did notify the Financial Aid Office of students whose scholarships were to be terminated, no independent review was performed by the Honors Program, Athletic Department, or Financial Aid Office to ensure that the scholarships were properly removed from the students' accounts and that the students were required to repay any scholarships improperly awarded.

MSU's *Honors Program and Academic Scholarship Quick Reference Guide* states that students maintaining fewer than 12 credit hours during an academic semester will immediately result in the termination of any Honors scholarship, and the student will be required to repay the costs of tuition, fees, and housing for that semester. The *Guide* and MSU's *Student Athlete Handbook* also specify the minimum grade point averages students are required to maintain to remain eligible for scholarships, and the related penalties for not meeting scholarship requirements (such as, cancellation of scholarship awards). As a result of these deficiencies, MSU lacked assurance that Honors and Athletic scholarships posted to student accounts were proper. According to MSU's records, during fiscal year 2010, Honors and Athletic scholarships awarded to students totaled approximately \$5.2 million and \$3.3 million, respectively.

## **Recommendation 2**

**We recommend that MSU**

- a. adequately document its monitoring process to ensure that students maintain the minimum required number of credit hours;**
- b. ensure that scholarships of students who fail to meet the requirements of the Honors and Athletic Programs are terminated, as required, including conducting independent reviews of terminations; and**
- c. recover any Honors and Athletic Program scholarships improperly awarded to students, as required.**

## **Grants**

### **Finding 3**

**MSU had not established adequate internal controls over grant collections and outstanding grant receivables, and delinquent grant accounts were not transferred to CCU, as required.**

### **Analysis**

Internal controls over grant collections and outstanding grant receivables were not adequate, and delinquent accounts were not transferred to CCU, as required.

These grants were received from federal, state, and private entities for research and development. Specifically, we noted the following conditions:

- The employee who initially received and processed grant collections received via check also recorded the payments in the grant accounts receivable records. As a result, collections could be misappropriated without detection. During fiscal year 2010 (through May 18, 2010), this employee processed grant collections totaling approximately \$1.9 million. In addition, within its automated system, MSU did not reconcile collections recorded on the grant accounts receivable records with collections deposited and recorded. As of August 10, 2010, grant collections recorded on the grant accounts receivable records (approximately \$9.5 million) exceeded corresponding collections recorded (approximately \$8 million) by approximately \$1.5 million. Although MSU management personnel provided an explanation for these differences, they were unable to provide documentation to substantiate the explanation.
- MSU did not adequately pursue collection of outstanding grant reimbursement requests, and delinquent grant accounts were not transferred to CCU, as required by State regulations. Specifically, written payment demands for outstanding grant reimbursement requests were not sent to grantor agencies at predetermined intervals. We were advised by MSU management personnel that, after the initial billings, MSU generally relied on telephone contacts with the agencies to request payment. However, our review of the 25 accounts totaling approximately \$1.5 million that were outstanding as of May 21, 2010 disclosed that 11 accounts were more than 30 days overdue and there was no evidence that MSU had contacted the grantor agencies to determine why the amounts billed had not been paid or had adequately pursued collection through written demands for payment. Furthermore, since required written demands had not been made, accounts could not be sent to CCU for collection efforts. Additionally, 7 of these delinquent grant accounts totaling approximately \$306,000 had been outstanding for periods ranging from approximately 4 to 16 months. Delays in the pursuit of outstanding debts may decrease the likelihood of collecting the funds. A similar condition was commented upon in our preceding audit report.

State regulations generally require that three written demands for payment be made on accounts at 30-day intervals and that outstanding accounts be transferred to CCU for further collection efforts within 75 days of the original demand for payment.

### **Recommendation 3**

**We recommend that MSU**

- a. ensure that the employee who maintains the grant accounts receivable records does not have access to the related collections;**
- b. ensure that an independent reconciliation is periodically conducted of grant collections recorded on its grant accounts receivable records to the collections deposited and recorded on the automated system, and that any differences are investigated and resolved in a timely manner, including the aforementioned \$1.5 million; and**
- c. send written payment demands to the applicable grantor agencies and transfer delinquent accounts to CCU, as required by State regulations (repeat).**

### **Automated System Access**

#### **Finding 4**

**MSU did not use available security features to establish independent online approval requirements for certain critical transactions, and did not ensure that employees' ability to perform certain critical system functions was properly restricted.**

#### **Analysis**

Although certain online approval capabilities existed within MSU's automated system, MSU did not use online approvals for any critical purchasing and disbursement transactions. In addition, numerous MSU employees had incompatible purchasing and disbursement processing capabilities. For example, four accounts payable employees had the ability to add a new vendor to the system, enter an invoice, and release disbursements for payment processing. As a result of these deficiencies, employees could potentially process unauthorized transactions that might not be readily detected by MSU management personnel. According to MSU records, fiscal year 2010 disbursements totaled approximately \$80.1 million.

Furthermore, MSU did not properly restrict employees' ability to perform certain critical system functions. Our review of employee access to certain critical financial and academic applications disclosed that the following employees did not require assigned access capabilities to perform their normal job duties:

<b>Critical Function</b>	<b>Number of Employees With Unnecessary Access</b>
Create a purchase order	13
Modify an existing purchase order	14
Record goods or services purchased as received	66
Enter an invoice and modify an existing invoice	41
Add a new vendor	23
Modify an existing vendor (such as, change a vendor name)	50
Release a batch of disbursements for payment processing	4
Post Financial Aid Awards to Student Accounts	1
Change Student Residency Status	8
Release Diplomas	4
Access Grant Accounts Receivable Records	9
Post Cash Receipts and Voids	2

#### **Recommendation 4**

**We recommend that MSU**

- a. use the available security features of its automated system by establishing online approval requirements for all critical transactions; and**
- b. assign user access capabilities to only those employees who require such capabilities to perform their normal job duties, and immediately remove the aforementioned unnecessary access capabilities.**

### **Student Accounts Receivable and Residency**

#### **Finding 5**

**Independent supervisory review and approval of student residency status determinations for undergraduate and graduate students either were not performed or were not documented.**

#### **Analysis**

MSU had not established adequate internal controls over student residency status determinations for both undergraduate and graduate students. Specifically, although we were advised that supervisory personnel reviewed initial determinations of student residency status and changes to residency status for undergraduate students, such reviews were not documented; furthermore, the reviews were not independent as the employee who performed the reviews had the ability to modify residency status in MSU's automated system. Additionally, for graduate students, neither initial residency status determinations nor changes

to residency status were reviewed and approved by supervisory personnel. Consequently, initial student residency determinations could be inaccurate and unauthorized residency status changes could be made without detection.

Furthermore, our test of 15 student residency status changes from out-of-state to in-state status made during the period beginning June 1, 2009 and ending March 3, 2010 disclosed that adequate supporting documentation (such as, copies of Maryland state tax returns) was not on file for 2 of the residency changes. Based on the documentation provided, one student was potentially undercharged \$8,155 for the Spring 2010 and Fall 2010 semesters. The other student withdrew from classes shortly after the residency status was changed.

MSU's Board of Regents *Policy on Student Residency Classification for Admission and Tuition Purposes* requires students to demonstrate their residency status (for example, demonstrate that they live in Maryland), and that a change in residency status must be requested by submitting a *Petition for Change in Classification for Tuition Purposes* along with supporting documents. According to MSU records, during the period beginning June 1, 2009 and ending March 3, 2010, there were 325 residency changes made to student records of which 297 were from out-of-state to in-state status. Accurate student residency determinations are critical because of the significant differences between in-state and out-of-state student tuition rates. For example, full-time undergraduate tuition and fee charges for the Spring 2010 semester totaled \$3,274 for Maryland residents and \$7,709 for nonresidents.

#### **Recommendation 5**

**We recommend that MSU**

- a. ensure that initial residency status determinations and residency status changes are reviewed, at least on a test basis, by independent supervisory personnel, and that the reviews are documented;**
- b. maintain adequate documentation supporting student residency status changes; and**
- c. bill the aforementioned student for any undercharges that occurred.**

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

**Finding 6**

**MSU did not always refer delinquent student accounts to CCU timely, and did not always prevent students with outstanding balances from registering for and attending classes, as required by MSU policy.**

**Analysis**

MSU did not always refer delinquent student accounts to the State's Central Collection Unit (CCU) timely. Specifically, our test of 10 student accounts with outstanding balances totaling approximately \$146,300 as of June 30, 2009, disclosed that 3 accounts with outstanding balances totaling approximately \$47,200 were not referred to CCU in accordance with MSU's approved deviation from CCU regulations. As of August 26, 2010, delays in referring these 3 accounts to CCU ranged from 3 months to 15 months after the accounts should have been referred to CCU. In addition, for 2 other accounts tested, students were permitted to register for and attend classes even though they had outstanding balances totaling approximately \$15,400 from prior semesters, and satisfactory financial arrangements (for example, a deferred payment plan) had not been made, in violation of MSU's *Payment Policy*.

MSU's *Payment Policy* states that any outstanding balance is due and payable in full prior to registration for the subsequent semester unless the student has made satisfactory financial arrangements. CCU regulations, as amended for MSU, generally state that a delinquent account is to be referred to CCU approximately 18 months after the beginning of the semester for which the outstanding balance occurred. According to MSU's records, the aggregate balance of the detail student accounts receivable records totaled approximately \$4.4 million as of June 30, 2009.

**Recommendation 6**

**We recommend that MSU**

- a. transfer all delinquent accounts to CCU timely, in accordance with the aforementioned regulations; and**
- b. not permit students with outstanding account balances to register for subsequent semesters unless the student has made satisfactory financial arrangements, in accordance with MSU's *Payment Policy*.**

## Payroll

### **Finding 7**

**Internal controls over electronic timesheets and overtime were inadequate, resulting in questionable overtime compensation payments to certain employees.**

### **Analysis**

MSU had not established adequate internal controls over electronic timesheets and overtime, resulting in certain employees receiving questionable overtime compensation. According to the State's records, during calendar year 2009, MSU's regular payroll expenditures (excluding fringe benefits) totaled approximately \$85 million, including approximately \$944,000 in employee overtime compensation. Specifically, we noted the following conditions:

- Generally, MSU employees prepared their own timesheets on the automated payroll system and supervisors approved their employees' timesheets on that system. However, twelve employees (primarily Human Resources and Payroll Office employees) had the ability to prepare and modify the electronic timesheets of any MSU employee without independent supervisory review and approval. Consequently, there was a lack of assurance that amounts paid to employees were proper. MSU management personnel advised us that this capability was generally used to prepare and submit an employee's electronic timesheet when the employee was unable to prepare his or her own timesheet (for example, the employee was on extended leave). According to MSU's records, 4,657 electronic timesheets were prepared or modified by the aforementioned employees during fiscal year 2010. Our review of these records did not note any instances in which these employees prepared or modified their own timesheets using this online capability.
- Overtime paid to employees was not always approved or supported. MSU procedures require employees working overtime to record their hours on timesheets and obtain prior authorization in the form of overtime authorization forms signed by their supervisors. However, we noted that MSU personnel who prepared the automated payroll exception time reports did not obtain and review the related overtime authorization forms. Specifically, overtime was recorded on the automated payroll reports based solely on overtime recorded on employee timesheets. This is important as MSU management personnel advised that overtime may be recorded before it is actually worked and be submitted to the Payroll Office prior to the end of a pay period to ensure the timely processing of the payroll. Furthermore, although the payroll exception time report is subject to supervisory review and approval, our test of overtime

compensation totaling approximately \$10,700 paid to 10 employees during fiscal year 2010 disclosed that 5 employees were paid for 63 hours of overtime totaling approximately \$1,050 that was not reflected on the employees' timesheets and overtime authorization forms provided to us by MSU management personnel. In addition, although the timesheets indicated overtime had been worked, approved overtime authorization forms were not on file to support 124.5 hours of overtime paid to three employees totaling approximately \$3,500.

#### **Recommendation 7**

**We recommend that MSU**

- a. revise system capabilities to ensure that all electronic timesheets are subject to independent supervisory review and approval,**
- b. ensure that overtime payments are only made if overtime is adequately supported, and**
- c. investigate the aforementioned questionable overtime payments and recover any overtime compensation paid to employees that is determined to be improper.**

#### **Purchases and Disbursements**

##### **Finding 8**

**Certain purchases were made without a formal written procurement process, and sole source procurements did not always appear justified and were not always adequately supported.**

##### **Analysis**

MSU made repetitive purchases of services from two vendors without a formal written procurement process. Specifically, our review of credit card purchases disclosed that, during the period from April 2007 to June 2010, MSU made payments totaling approximately \$388,100 and \$224,400 to two vendors for pest control and transportation services, respectively. However, MSU had not obtained competitive bids for these services and had not entered into written contracts with the vendors. In that regard, the purchases were made using corporate purchasing cards and the individual transactions were \$5,000 or less. Since the purchases were not consolidated, MSU's leverage as a high-volume purchaser may not have been maximized.

Additionally, MSU's use of the sole source procurement method did not always appear to be justified and was not always adequately supported. Our test of 15 vendor payments made during fiscal years 2008 to 2010 totaling approximately \$431,200 disclosed that 4 of the purchases totaling approximately \$341,000 were

made using the sole source procurement method. Although MSU did document use of the sole source procurement method, it did not appear that the goods or services procured were only available from one vendor, and therefore the justifications did not appear adequate. For example, MSU purchased a specific piece of scientific equipment at a cost of approximately \$319,000. The sole source justification stated that the specified item could only be purchased from the specified vendor. However, our search of the internet identified several vendors that offered various models of this equipment. We were advised by the MSU employee who requested the purchase that two vendors had been contacted but were unable to provide the specific model required; however, the employee had no documentation to support that other vendors were contacted and this was not noted on the sole source justification prepared by MSU.

The *MSU Procurement Policies and Procedures Manual* generally requires that competitive bids be obtained for purchases of \$5,000 or more, and that contracts be executed for services exceeding \$25,000. When applicable, the *Manual* also requires that a sole source justification form be prepared which clearly indicates that there is only one source for the required goods, service, or construction.

#### **Recommendation 8**

**We recommend that purchases of goods and services be made in accordance with the aforementioned *MSU Procurement Policies and Procedures Manual*. Specifically, we recommend that MSU**

- a. consolidate and competitively procure frequently used services to maximize buying power whenever possible, and ensure that formal written contracts are executed;**
- b. use the sole source procurement method when the required goods, services, or construction are available only from one source; and**
- c. maintain adequate documentation supporting sole source procurements.**

## **Information Systems Security and Control**

### **Background**

MSU's information technology department provides information technology support to MSU by maintaining its campus-wide administrative applications, such as the student administration, human resources, and financial systems. The information technology department also operates an integrated administrative and academic computer network, which provides connections to multiple servers used for administrative applications and related databases. The campus network also

includes separate email and file servers, Internet connectivity, and firewalls and routers. MSU also maintains a website that functions as an entry point to many of MSU's services.

#### **Finding 9**

**MSU's internal network was not properly secured.**

#### **Analysis**

Security over MSU's internal network was not adequate to properly protect critical network devices. Specifically, we noted the following conditions:

- Devices designated to protect critical network resources from untrusted entities (for example the Internet, student dormitories, and student computer labs) were not configured to adequately protect these critical network resources. For example, student dormitories and the campus wireless network had unnecessary network level access to numerous internal network devices.
- MSU's IPS (intrusion prevention system) was not configured to monitor and filter network traffic from student computer labs and the campus wireless network to critical devices within the internal network. An IPS gathers and analyzes network traffic to identify and block network security breaches and attacks, and to alert network administrators of these situations.

#### **Recommendation 9**

**We recommend that MSU improve security over its internal network. We made detailed recommendations to MSU, which if implemented, should provide for adequate security over the internal network.**

#### **Finding 10**

**Controls over passwords and logging and reporting of security events for a critical database were not adequate.**

#### **Analysis**

Controls over passwords and logging and reporting of security events for a critical database were not adequate. Specifically, we noted the following conditions:

- Certain password settings were not in compliance with the State of Maryland Department of Information Technology's (DoIT) *Information Security Policy*. For example, password length, complexity, and history were not enforced for 120 user and application accounts.

- The use of critical database system privileges and commands was not logged. In addition, direct modifications to critical student accounts receivable and financial aid data were not logged. Because of these conditions, unauthorized activities affecting the integrity of the database could occur and not be detected by management.

**Recommendation 10**

**We recommend that**

- a. database password settings conform to the DoIT *Information Security Policy*, and**
- b. the database be configured to log the use of critical system privileges and commands and direct modifications to student accounts receivable and financial aid data.**



## **Audit Scope, Objectives, and Methodology**

We have audited Morgan State University (MSU) for the period beginning February 1, 2007 and ending March 23, 2010. 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 MSU's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included cash receipts, procurements and disbursements, information systems, student accounts receivable, grants, and payroll. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MSU'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.

We did not audit MSU'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 MSU.

MSU'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 MSU's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MSU that did not warrant inclusion in this report.

MSU'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 MSU regarding the results of our review of its response.



*Office of the President*

July 15, 2011

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

Dear Mr. Myers:

Enclosed is the University's response to the draft audit report issued by your office covering the period beginning February 1, 2007 and ending March 23, 2010.

This represents my first experience with the Maryland legislative audit process. While the audit report demonstrates that the University has made significant progress over the last several years, as measured in the decreased number of findings (from 17 to 10) as well as in the number of findings corrected (16 out of 17), it is our intention to continue to improve upon this for the next audit. Specifically, our goal is to have none of the current audit findings repeated in the next audit. This will be accomplished through periodic assessments and follow-ups for me and the University's Board of Regents. Additionally, we have already started to increase our efforts to reduce the findings for the next audit, both in number and potential severity.

In closing, we appreciate the efforts of your staff in assisting us in becoming a more fiscally accountable and better managed University. If I can be of any assistance, please feel free to contact me.

Kind regards,

A handwritten signature in cursive script, appearing to read "David Wilson".

David Wilson  
President

Enclosure

Cc: Anwer Hasan, Chairman, Maryland Higher Education Commission  
Elisabeth A. Sachs, Interim Secretary of Higher Education, Maryland Higher Education Commission  
Dallas R. Evans, Chairman, Board of Regents, Morgan State University

**Finding 1**

**Independent verifications were not always performed to ensure the propriety of scholarships and certain loan adjustments posted to student accounts.**

**Recommendation 1**

**We recommend that MSU**

- a. ensure that supervisory personnel independent of the financial aid award process verify the propriety of financial aid transactions posted to student accounts, and that such verifications be documented; and**
- b. review previously awarded scholarships, including the aforementioned student aid accounts, for any discrepancies in scholarships posted to student accounts, investigate those discrepancies, and make any necessary adjustments to the accounts.**

University Response:

a. The University agrees with the finding and recommendations. Specifically, effective with the Fall 2011 semester, independent supervisory personnel will perform monthly reconciliations between source documents and financial aid postings as a means to verify the propriety and accuracy of the postings for Honors and Athletic scholarships. Additionally, the University agrees to implement procedures at the same time that will provide for independent supervisory reviews of certain adjustments to federal direct loans. These reconciliations and reviews will be documented and retained for audit verification.

b. The University agrees to review Honors and Athletic Program scholarships including the aforementioned student aid accounts, for any discrepancies posted amounts, investigate those discrepancies, and make any adjustments as necessary. In this regard, the University will review the awards made during the 2009-2010 and 2010-2011 school years and take appropriate action on any discrepancies no later than September 1, 2011.

**Finding 2**

**Internal controls over the continued eligibility of Honors and Athletic scholarships were inadequate.**

**Recommendation 2**

**We recommend that MSU**

- a. adequately document its monitoring process to ensure that students maintain the minimum required number of credit hours;**
- b. ensure that scholarships of students who fail to meet the requirements of the Honors and Athletic Programs are terminated, as required, including conducting independent reviews of terminations; and**
- c. recover any Honors and Athletic Program scholarships improperly awarded to students, as required.**

University Response:

- a. The University agrees to improve the documentation of its monitoring efforts. Specifically, before July 31, 2011, it will modify its monitoring report to include the number of credit hours for each course for which a student is enrolled. Moreover, effective immediately, it will require written evidence that the determination of the number of credit hours taken by each student has been made.
- b. The University agrees to terminate any Honors and Athletic Program scholarships improperly awarded to students, as required, and will perform an independent review of such terminations.
- c. The University agrees to recover any Honors and Athletic Program scholarships improperly awarded to students, as required. In this regard, the University will review the awards made during the 2009-2010 and 2010-2011 school years and take appropriate action on any improper awards no later than September 1, 2011.

**Finding 3**

**MSU had not established adequate internal controls over grant collections and outstanding grant receivables, and delinquent grant accounts were not transferred to CCU, as required.**

**Recommendation 3**

**We recommend that MSU**

- a. ensure that the employee who maintains the grant accounts receivable records does not have access to the related collections;**
- b. ensure that an independent reconciliation is periodically conducted of grant collections recorded on its grant accounts receivable records to the collections deposited and recorded on the automated system, and that any differences are investigated and resolved in a timely manner, including the aforementioned \$1.5 million; and**
- c. send written payment demands to the applicable grantor agencies and transfer delinquent accounts to CCU, as required by State regulations (repeat).**

University Response:

a. The University has fully implemented this recommendation. As soon as the Auditors identified this issue, controls were immediately put into place to ensure all payments are immediately forward to the University cashier by employees who do not have access to the related receivables records. The University has also notified its sponsors to forward payments directly to the University cashier.

b. The University has fully implemented the auditors' recommendations. While the auditors were here, the University was near completion of its grants billings system in its Enterprise Resource Planning (ERP). Since then, the grant billing system has been fully implemented and the University has been able to track all billings and payments and reconcile, investigate and resolve both payment and nonpayment differences on a regular basis. Specifically, as of June 30, 2011, collections recorded in our grants receivable ledger are reconciled to the collections deposited. Moreover, the \$1.5 million difference noted by the auditors was attributed to conversion of our legacy FRS data and advance payments. The accounts have been identified and adjustments are being processed accordingly.

c. The University has fully implemented the auditors' recommendations to aggressively pursue collection efforts and forward delinquent accounts to CCU.

**Finding 4**

**MSU did not use available security features to establish independent online approval requirements for certain critical transactions, and did not ensure that employees' ability to perform certain critical system functions was properly restricted.**

**Recommendation 4**

**We recommend that MSU**

- a. use the available security features of its automated system by establishing online approval requirements for all critical transactions; and**
- b. assign user access capabilities to only those employees who require such capabilities to perform their normal job duties, and immediately remove the aforementioned unnecessary access capabilities.**

University Response:

a. The University agrees and is continuously implementing additional features of its ERP system to strengthen internal controls and improve efficiency, including the use of online approvals as necessary.

b. Effective with the end of the audit, the University began to identify individuals who have unnecessary access and immediately remove such access. Moreover, every six months the University will review all access to critical forms in the ERP and eliminate unnecessary access.

**Finding 5**

**Independent supervisory review and approval of student residency status determinations for undergraduate and graduate students either were not performed or were not documented.**

**Recommendation 5**

**We recommend that MSU**

- a. ensure that initial residency status determinations and residency status changes are reviewed, at least on a test basis, by independent supervisory personnel, and that the reviews are documented;**

## Response of Morgan State University

- b. maintain adequate documentation supporting student residency status changes; and**
- c. bill the aforementioned student for any undercharges that occurred.**

### University Response:

a The University agrees that independent supervisory review and approval of student residency status determinations must be performed and documented. To this end, the University will perform independent supervisory reviews of initial residency status determinations, on a test basis, upon the student's matriculation at the University. Similarly, the University will perform independent supervisory reviews of student residency changes. All reviews will be documented. This recommendation will be fully implemented no later than August 31, 2011.

b The University agrees to maintain adequate documentation in support of the student residency changes and will retain same for audit verification.

c We have reviewed the documentation for the student and determined that in-State residency status was the appropriate classification.

### **Finding 6**

**MSU did not always refer delinquent student accounts to CCU timely, and did not always prevent students with outstanding balances from registering for and attending classes, as required by MSU policy.**

### **Recommendation 6**

**We recommend that MSU**

- a. transfer all delinquent accounts to CCU timely, in accordance with the aforementioned regulations; and**
- b. not permit students with outstanding account balances to register for subsequent semesters unless the student has made satisfactory financial arrangements, in accordance with MSU's *Payment Policy*.**

### University Response:

a. The University agrees. The student accounts identified by the auditors had pending financial aid. In accordance with our practice at the time of the audit, the University delayed forwarding student accounts with any form of pending

## Response of Morgan State University

financial aid to CCU. Effective January 2011, the University changed its practices by including those accounts with pending financial aid in its evaluation of accounts to be forwarded to CCU. As a result, the University is now forwarding all eligible accounts to CCU on a timely basis.

b. Effective with the spring 2011 semester, the University has fully implemented this recommendation.

### **Finding 7**

**Internal controls over electronic timesheets and overtime were inadequate, resulting in questionable overtime compensation payments to certain employees.**

### **Recommendation 7**

**We recommend that MSU**

- a. revise system capabilities to ensure that all electronic timesheets are subject to independent supervisory review and approval,**
- b. ensure that overtime payments are only made if overtime is adequately supported, and**
- c. investigate the aforementioned questionable overtime payments and recover any overtime compensation paid to employees that is determined to be improper.**

### University Response:

a. The University agrees and has reviewed, updated and strengthened the ERP electronic security and implemented the necessary internal and qualitative controls. Specifically, the majority of the transactions questioned by the auditors are attributed to two departments in which supervisors both prepared and approved timesheets for students who were employed in certain capacities. These timesheets are now approved by mid-management employees who do not prepare the timesheets. Additionally, the University determined that several employees who had the “super” user privileges did not require them to perform their job and thus, those privileges were removed. Finally, the remaining “super” users are now required to seek supervisory approval prior to exercising those privileges. To ensure that this is being done, the University will periodically perform independent reviews of “super” user activity for propriety.

## Response of Morgan State University

b. Procedural controls for employees working overtime have been implemented to mitigate unnecessary risks.

c. The University investigated possible instances of overtime abuse by obtaining and reviewing appropriate documentation. Based on this, it has concluded that all overtime paid was appropriate (e.g., necessary, worked, etc.).

### **Finding 8**

**Certain purchases were made without a formal written procurement process, and sole source procurements did not always appear justified and were not always adequately supported.**

### **Recommendation 8**

**We recommend that purchases of goods and services be made in accordance with the aforementioned *MSU Procurement Policies and Procedures Manual*. Specifically, we recommend that MSU**

- a. consolidate and competitively procure frequently used services to maximize buying power whenever possible, and ensure that formal written contracts are executed;**
- b. use the sole source procurement method when the required goods, services, or construction are available only from one source; and**
- c. maintain adequate documentation supporting sole source procurements.**

### University Response:

a. The University agrees with the auditors' recommendations and has recently concluded the process of competitively bidding out identified procurements that individually have small dollar value but cumulatively add up to significant dollars. As of July 1, 2011, a written contract has been executed with one vendor for pest control services. A vendor for the transportation services is expected to be identified in the near future and a written contract executed shortly thereafter. In addition, effective July 15, 2011, the University will review credit card reports on a quarterly basis looking to identify other procurements that individually have small dollar value but cumulatively add up to significant dollars. Procurements so identified will be processed through our procurement process, which will include competitive bids and written contracts.

b. The University agrees and will ensure all sole source procurements are fully documented and justified in accordance with its established policies and procedures.

## Response of Morgan State University

c. The University has reminded its staff to retain all documentation in support of sole source procurements.

### **Finding 9**

**MSU's internal network was not properly secured.**

### **Recommendation 9**

**We recommend that MSU improve security over its internal network. We made detailed recommendations to MSU, which if implemented, should provide for adequate security over the internal network.**

### University Response:

We agree with the finding and have taken actions to improve security over our internal network. Specifically, we have taken certain specified steps (e.g., expanding rules to restrict access by student labs to only publicly available systems) to protect our critical resources, as identified by the auditors. Additionally, we have started the process of configuring and deploying our IPS system to monitor and filter network traffic from student labs and the campus wireless network to critical devices. We expect this to be completed no later than July 31, 2011.

### **Finding 10**

**Controls over passwords and logging and reporting of security events for a critical database were not adequate.**

### **Recommendation 10**

**We recommend that**

- a. database password settings conform to the DoIT *Information Security Policy*, and**
- b. the database be configured to log the use of critical system privileges and commands and direct modifications to student accounts receivable and financial aid data.**

## Response of Morgan State University

### University Response:

a We agree with the finding and have implemented the recommendation.

b We agree with the finding and have begun the auditing of specific accounts receivable tables covering student bills and balances, and also financial aid tables that are affected by the increase in aid to a student. These table audits will provide an account of changes for both adjustments made during the ordinary course of business as well as any direct modification to the database. It should be noted that direct modifications to the database are not permitted as a matter of practice. We shall also monitor and log the use of critical database system privileges and commands. We are currently determining the best method for such monitoring and logging without degrading overall system performance. We expect to implement this recommendation by July 31, 2011.

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