

Audit Report

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**Morgan State University**

February 2008

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**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

February 8, 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 Morgan State University (MSU) for the period beginning November 1, 2003 and ending January 31, 2007.

Our audit disclosed significant deficiencies related to MSU's management and oversight of its capital improvement projects. For one project we reviewed, with expenditures totaling \$7.4 million as of June 30, 2007, a number of questionable matters were identified which resulted in their referral to the Criminal Division of the Office of the Attorney General. For example, we found that \$3.1 million of the original contract amount for this project represented an undefined allowance that was subsequently used by MSU to pay for work on other unrelated contracts that were awarded to the same contractor. This undefined allowance had not been subject to a competitive bid process, and MSU had not adequately disclosed it to the Board of Public Works. Moreover, due in part, to a lack of adequate invoice review for this project, we identified questionable payments made by MSU to the contractor of up to \$2.4 million, including payments for goods and services that may not have been received and duplicate payments. These payments require further investigation and resolution. Furthermore, certain transactions appeared to have been artificially divided to avoid required Board of Public Works approval.

Concerning its general practices for capital improvement projects, change orders were often approved after the work had been completed and paid for, and MSU often failed to assess liquidated damages against contractors (as allowed by the related contracts) when capital improvement projects were significantly delayed beyond scheduled completion dates. In addition, MSU did not always meet its minority business enterprise goals, and did not document that all project inspections were performed.

Finally, various internal control weaknesses and other procedural deficiencies were noted in the areas of payroll, grants, cash receipts, information systems security, and student accounts receivable that require corrective action by MSU. For example, during our audit period, two MSU employees received overpayments totaling \$121,400 because they were paid on both the regular and contractual payrolls for the same work.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor

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\* Denotes item repeated in full or part from preceding audit report

# Executive Summary

## Legislative Audit Report on Morgan State University February 2008

### Capital Improvement Projects

- **MSU did not disclose to the Board of Public Works (BPW) that \$3.1 million of its \$4.3 million telecommunications hub relocation project contract represented undefined allowance funds that lacked specific deliverables and were not subject to competitive bidding. In addition, MSU primarily used these funds to pay for work on unrelated contracts that were awarded to the same contractor.**

MSU should report the undefined allowance funds to the BPW for its review and should ensure that, in the future, all significant facts regarding contracts submitted to the BPW are disclosed.

- **Procedures for reviewing telecommunications hub relocation project invoices were inadequate and, as a result, questionable payments of up to \$2.4 million were made for charges that were not verified or supported, for equipment and services that were never received, and for duplicate items.**

MSU needs to improve its review of project invoices, determine the amount of any overpayments made, and take immediate action to recover any such overpayments.

- **MSU processed \$2.3 million in change orders to the hub relocation project to upgrade its telecommunications system, which was outside the scope of the original project, rather than initiate a new procurement. Change orders totaling \$4.1 million—relating to this project and others—were often approved after the work had been completed and paid for, and certain change orders appeared to have been artificially divided to circumvent required BPW approval.**

MSU should report the telecommunications system upgrade to the BPW for its review and initiate new procurements for work that is outside of the scope of a contract. MSU should also ensure that change orders are approved before the related work is completed and paid for, and comply with the spirit and intent of State Procurement Regulations by not dividing change orders to avoid BPW approval.

- **MSU allowed the contractor that was awarded the hub relocation contract to increase its bid on a different project by \$68,000 with no apparent change in the scope of work to be performed, and appeared to artificially divide the related project costs to avoid required BPW approval. MSU also authorized the contractor to perform work even though funds were not available.**

MSU should discontinue the practices of allowing contractors to increase bids without a substantive change to the scope of the work to be performed and should not authorize contractors to perform work when funds are not available. MSU should also refrain from artificially dividing construction projects to circumvent BPW approval.

- **Liquidated damages totaling \$3.1 million, related to three construction projects that were significantly past their scheduled completion dates, were not assessed. MSU frequently did not meet its minority business enterprise (MBE) participation goals, and did not document that all project inspections were completed.**

MSU should assess and seek recovery of liquidated damages for projects not completed by their scheduled dates or document why damages were not assessed. MSU should also take appropriate measures to ensure that MBE participation goals are met to the extent possible, and that written documentation of project inspections is maintained.

### **Fiscal Operations**

- **MSU had not established adequate payroll processing procedures, resulting in improper salary payments totaling \$121,400. These improper payments were not reported to the appropriate authorities, as required.**

Payroll processing procedures should be improved, and instances of possible criminal or unethical employee conduct should be appropriately reported.

- **Sufficient security controls were not in place over MSU's internal computer network to protect it from attacks from both external and internal sources. Internal control and recordkeeping deficiencies were also noted with respect to grants, cash receipts, student accounts receivable, and grants.**

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

## **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. MSU's student population is approximately 6,700 students. According to the State's records, MSU revenues for fiscal year 2007 totaled approximately \$172 million, including a State general fund appropriation of approximately \$63 million.

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

Our audit included a review to determine the current status of the 14 findings contained in our preceding audit report dated November 24, 2004. We determined that MSU had satisfactorily addressed 11 findings. The remaining 3 findings are repeated in this report.



# Findings and Recommendations

## Capital Improvement Projects

### Telecommunications Hub Relocation Project

#### Background

Capital improvement projects are administered by MSU's Division of Design and Construction Management (DCM). In August 2005, MSU hired a contractor to construct a new telecommunications hub, and to remove existing telecommunications equipment from the existing hub location and relocate it to the new location. The original contract for this project was approved by the Board of Public Works (BPW) on August 31, 2005 for approximately \$4.3 million. The original contract included \$1.2 million for clearly-defined construction activities and a \$3.1 million allowance for undefined telecommunications infrastructure costs, hereinafter referred to as undefined allowance funds. In addition, MSU subsequently processed change orders totaling approximately \$3.6 million for this project, which increased the total contract amount to \$7.9 million. As of June 30, 2007, project expenditures totaled approximately \$7.4 million.

Based on our review of the project and the related \$3.1 million undefined allowance, we identified a number of questionable matters, as described in the findings which follow. Consequently, we referred these matters to the Criminal Division of the Office of the Attorney General.

#### **Finding 1**

**MSU did not disclose to the BPW that \$3.1 million of the \$4.3 million original contract represented undefined allowance funds that lacked specific deliverables and that were not subject to competitive bidding. Furthermore, these funds were primarily used by MSU to pay for work on unrelated contracts that were awarded to the same contractor.**

#### Analysis

In its August 2005 submission to the BPW, MSU did not disclose that \$3.1 million of the \$4.3 million contract cost was funding for an undefined allowance which lacked specific deliverables and was not subject to competitive bidding. Specifically, the undefined allowance (which represents 72 percent of the original contract amount) provided funding for work that was not defined or detailed in the related invitation for bids (IFB) but, rather, was vaguely described as "telecommunications infrastructure." Furthermore, in the IFB, each vendor was

instructed by MSU to simply include this \$3.1 million amount in its total bid for this portion of the contract.

We were advised by MSU management personnel that the purpose of including the \$3.1 million allowance in the contract was to provide MSU with appropriate flexibility to respond to unforeseen conditions and to minimize disruptions in telecommunication operations. However, a detailed breakdown of how the \$3.1 million in undefined allowance funds were going to be used was not prepared by either MSU or the contractor prior to the funds being spent. Moreover, as of June 2007, approximately \$3 million of the undefined allowance funds had, instead, been used by MSU to fund expenditures completely unrelated to the telecommunications hub relocation project. Specifically, the funds were used to finance work on numerous other construction projects (for example, cost overruns in other projects totaling \$645,600) by the same general contractor that had been awarded the hub relocation project. We were advised that MSU believed that the use of these funds to cover expenditures of other projects was appropriate because the other projects were all, in some way, “infrastructure related.”

Under State law and regulations, funding for construction projects can be used only for the specific construction projects for which the funds are appropriated, and funds may not be transferred for use on other construction projects without proper authorization.

#### **Recommendation 1**

**We recommend that MSU report the aforementioned undefined allowance to the BPW for its review. We further recommend that, in the future, MSU fully disclose all material facts regarding contracts submitted to the BPW for approval.**

#### **Finding 2**

**MSU procedures for reviewing project invoices were inadequate. Our audit identified charges that were not verified or supported, payments for equipment and services that were never received, and charges for duplicate items, resulting in questionable payments of up to \$2.4 million.**

#### **Analysis**

MSU’s procedures for reviewing the invoices related to the hub relocation project were inadequate. Furthermore, sufficient detail was not provided on the invoices or otherwise obtained by MSU to verify the propriety of the related charges, and subcontractor invoices were not obtained to verify the validity of certain charges. As a result, our review of project invoices paid during the period from January

2006 through June 2007, totaling approximately \$3.3 million, disclosed the following conditions:

- Approximately \$1.1 million in software license charges for telephone lines and networks, processed via change orders, were not adequately verified or supported. Specifically, MSU had not developed an estimate of the required number of telephone lines in order to assess the reasonableness of the software license charges, and had not requested or obtained documentation that all licenses paid for were received.
- The Director of DCM confirmed our findings that MSU overpaid the contractor \$825,250 from the undefined allowance funds. Specifically, we were advised that the overpayments resulted from duplicate contractor billings, and MSU was unaware that the overpayments had occurred until we questioned the payments in July 2007. We were further advised that the contractor had acknowledged that the invoices were submitted in error. However, as of December 2007, the overpayments had not been recovered from the contractor by MSU.
- Invoices for certain change orders included equipment charges totaling approximately \$649,000 for 143 circuit board housing units. However, when we attempted to sight the units with MSU management personnel, MSU personnel were only able to locate 49 of the 143 units paid for, resulting in potential overpayments of approximately \$456,000.
- Invoices contained numerous mathematical errors, duplicate charges, and mark-ups that exceeded contract allowances, resulting in overpayments totaling approximately \$51,000. The Director of DCM advised us that DCM personnel did not review the invoices for mathematical accuracy, duplicate charges, or other billing errors because they considered such a review to be an accounting function outside its area of responsibility.

As of December 2007, MSU had not taken adequate action to recover or resolve any of the questionable payments of up to \$2.4 million, and the amount of retainage withheld from the contractor, as of June 30, 2007 (\$390,500), was not sufficient to cover the amount of the potential overpayments. MSU procedures require its Director of DCM to review and approve contractor invoices. With respect to telecommunication charges, however, this employee advised us that he lacked the technical knowledge to certify telecommunication charges and relied on the input of the MSU Division of Information Technology (IT) to ensure the propriety of amounts billed. We were advised by MSU senior IT management

personnel that they had not reviewed any related project invoices and were not involved in the payment approval process.

### **Recommendation 2**

**We recommend that MSU review all invoices paid under the project (including invoices for change orders and undefined allowance costs), determine the amount of overpayments made, and take immediate action to recover overpayments made. We also recommend that, in the future, MSU require contractors to submit invoices in sufficient detail to facilitate review, and that MSU conduct thorough reviews of billed charges that include reviews of supporting documentation, as well as mathematical accuracy of the invoices and verifications that all items billed had been received. We further recommend that, in the future, MSU assign employees with appropriate technical knowledge to review and approve contractor invoices.**

### **Finding 3**

**MSU processed change orders totaling approximately \$2.3 million to purchase goods and services that were outside the scope of the original project, rather than initiate a new procurement. Furthermore, certain of these change orders appeared to have been artificially divided to circumvent required BPW approval.**

### **Analysis**

Rather than initiate a new procurement, MSU processed change orders to the hub relocation project, totaling \$2.3 million, which were used to purchase upgraded telecommunications equipment and services. As previously mentioned, this project included the construction of a new telecommunications hub, and the relocation of the existing telecommunications equipment from the old hub location to the new hub location. Accordingly, the purchase of new telecommunications equipment was outside the scope of the original hub project. We were advised by DCM management personnel that these purchases were not included in the original contract because, at the time the original contract was executed, MSU did not realize the full extent to which existing telecommunications equipment would be disrupted or that a systems upgrade would be warranted. We were further advised that MSU did not initiate a new procurement (such as through competitive solicitation) because it wanted to avoid any potential delays to the completion of the hub project that might result; however, MSU did not prepare written documentation to justify the procurement of the system upgrade from the existing contractor as a sole source procurement.

In addition, it appeared that certain of the aforementioned change orders were artificially divided to circumvent required BPW approval. On May 1, 2007, MSU prepared four change orders totaling \$1,509,950; each change order was valued at less than \$500,000. However, the description of the work to be performed was identical on each change order—the only distinction being the location on campus where the work was to be performed. State Procurement Regulations, as modified for MSU, require BPW approval for modifications to the scope of original contracts, and new contracts in excess of \$500,000.

Furthermore, as of June 28, 2007, MSU had not established records of the new equipment purchased, and had no records to document the disposition (such as disposal) of the original equipment from the old telecommunications hub.

### **Recommendation 3**

**We recommend that MSU report the aforementioned telecommunication system upgrades to the BPW for its review. We also recommend that MSU initiate new procurements, rather than process change orders to existing contracts for work that is outside the contract scope, and comply with the spirit and intent of State Procurement Regulations by not dividing change orders to avoid required BPW approval. In the future, we recommend that MSU report new contracts, as well as changes to the scope of original contracts, in excess of \$500,000, to the BPW. Finally, we recommend that MSU investigate the disposition of the original equipment and maintain records of equipment purchased, transferred, or disposed of.**

### **Finding 4**

**MSU allowed the contractor that was awarded the contract to increase its bid on a project by \$68,000 with no apparent change in the scope of work to be performed. In addition, MSU appeared to artificially divide the related project costs to avoid required BPW approval.**

### **Analysis**

Our review of one project (stadium improvements) that was inappropriately funded, in part, with monies transferred from the hub relocation project, disclosed that MSU allowed the contractor that was awarded the contract to increase its bid by \$68,000 with no apparent change in the scope of work to be performed and had not documented why this cost increase was approved.

In addition, our review of other aspects of the project disclosed that MSU appeared to circumvent the BPW approval process by artificially dividing the project into two different components, each with a value of less than \$500,000.

Specifically, the contractor's best and final offer for this project totaled approximately \$945,000, and consisted of a base project cost of \$649,965 and five alternate projects with a combined cost of \$295,035 that could be eliminated. However, MSU negotiated with the contractor and reduced the base project cost (by \$169,965) to \$480,000 and increased the cost for the five alternate projects, also by \$169,965, to \$465,000. MSU did not document why the aforementioned costs were shifted from the base project to the alternate projects which, effectively, valued each project component below the \$500,000 threshold for BPW approval.

#### **Recommendation 4**

**We recommend that MSU discontinue the practices of allowing contractors to increase their bid amounts without a substantive change in the scope of work to be performed. We also recommend that MSU refrain from artificially dividing construction projects thereby circumventing required BPW approval. Additionally, we recommend that, in the future, MSU prepare and retain documentation of changes in project scope.**

#### **Finding 5**

**MSU authorized the contractor to perform certain work even though funds were not available for payment.**

#### **Analysis**

MSU authorized the contractor to perform certain work even though MSU did not have sufficient funds available at the time to pay the contractor. Specifically, the same contractor that was awarded the hub relocation project contract, deferred billing MSU on another contract (that was paid for, in part, with the undefined allowance funds) for up to nine months after the related services were provided. Specifically, the contractor's September 26, 2005 invoice (prepared one month after the BPW approved the hub project in August 2005) included subcontractor charges totaling \$127,250 for boiler rentals that comprised seven invoices covering the period from December 15, 2004 to June 1, 2005. Each of the subcontractor's invoices specifically required payment prior to the first date of the monthly rental period, thus indicating that the contractor had deferred billing MSU for amounts due the subcontractor. Furthermore, the contractor's September 26, 2005 invoice reflected contractor labor charges totaling \$82,200 with a notation that these charges were "to be submitted later." The contractor's invoice cover letter to MSU stated that the contractor had agreed to defer these charges. The contractor subsequently billed MSU for the labor charges on November 15, 2005. In our opinion, such transactions between MSU and the

contractor appear to raise questions concerning the “arms-length” nature of the transactions.

**Recommendation 5**

**We recommend that MSU discontinue the practice of authorizing a contractor to perform work when funds were not appropriated for such purposes.**

**General Practices for Capital Improvement Projects**

**Background**

According to MSU records, during fiscal years 2004 through 2007 expenditures for 13 capital improvement projects totaled approximately \$120 million. Under State Procurement Regulations, as amended for MSU, original contracts and contract modifications (including change orders) that exceed \$500,000 require Board of Public Works (BPW) approval.

**Finding 6**

**Change orders were frequently approved after the related work had been completed and paid for.**

**Analysis**

Our review of 22 change orders totaling approximately \$4.1 million relating to three MSU construction projects (19 of these change orders, totaling approximately \$3.6 million, related to the hub relocation project) disclosed that MSU regularly approved the change orders after the related work had been completed and paid for. Specifically, we noted that all 22 change orders tested were prepared and approved by MSU from one month to more than two years after the issuance of the related field work order which authorized the contractor to begin the additional work; for 19 of these change orders, totaling approximately \$3.6 million, the work had been completed and payment had been made to the contractor from 4 to 23 months before approval by MSU. Although the field work orders were approved by DCM personnel, MSU senior management personnel are required to approve change order documents to authorize additional work to be completed.

**Recommendation 6**

**We recommend that, in the future, change orders be prepared and approved by MSU senior management personnel, before the related work is authorized, completed, and paid for.**

**Finding 7**

**MSU had not assessed liquidated damages, totaling \$3.1 million, related to three construction projects that were from 16 to 23 months past their scheduled completion dates as of August 2007, and had not documented why such action was not taken.**

**Analysis**

MSU had not assessed liquidated damages, totaling approximately \$3.1 million, against three contractors that had not completed construction projects timely, and had not documented why such action was not taken. In fiscal year 2004, MSU entered into three contracts totaling approximately \$64.5 million; the related contracts provided that, if the projects were not completed by the scheduled completion dates, MSU could assess liquidated damages ranging from \$1,000 to \$2,500 for each additional calendar day required to complete the work. However, our review disclosed that MSU had not assessed liquidated damages against the contractors even though one of the projects was completed 17 months past its scheduled completion date, and the other two projects—while still incomplete as of August 22, 2007—were 16 and 23 months past their scheduled completion dates. We were advised by DCM management personnel that, although MSU could have assessed liquidated damages against the contractors, claims for damages are generally not assessed until the project is completed. We were further advised that MSU had considered assessing liquidating damages against one of the contractors but determined that the delays were not the contractor's fault; however, MSU lacked documentation to support this determination.

Additionally, MSU requested payment for approximately \$1.2 million in liquidated damages in February 2007 for another construction project. However, the payment request was not made until the project was 22 months past its scheduled completion date. We were advised by MSU management that, as of August 2007, the claim was still under litigation and had not been collected; at that time, the project had only been conditionally accepted by MSU and was 27 months overdue with damages having increased to \$1.6 million. We were subsequently advised that \$894,000 had been collected as of December 2007 but the matter is under litigation and negotiation.

**Recommendation 7**

**We recommend that MSU assess and seek recovery of the full amount of liquidated damages applicable to construction projects for which contractors fail to complete the projects by the scheduled completion dates, including the aforementioned projects, or adequately document why such action was not**

**taken. We also recommend that MSU continue to pursue collection of the liquidated damages assessed against the aforementioned contractor.**

**Finding 8**

**MSU frequently did not meet its minority business enterprise participation goals on construction projects.**

**Analysis**

MSU frequently did not meet its goals for minority business enterprise (MBE) participation on its construction contracts. MSU's procurement operations manual and the Notice of Intent to Award letters issued to contractors established a 30 percent MBE participation goal. However, our review of nine construction projects, with contracts (including change orders) totaling approximately \$120 million that had been completed or were near completion as of June 30, 2007, disclosed that MSU did not meet MBE participation goals on five of these projects. For three of these five projects, general contractors awarded contracts representing 20 to 22.5 percent of the total project to MBE firms. For the remaining two projects, general contractors had initially awarded as much as 44 percent of the total project to MBE firms; however, contract modifications were subsequently processed which significantly increased total spending on the projects, but participation by MBE firms was not also increased.

As of June 30, 2007, MBE contractors for the aforementioned five projects had been paid approximately \$23 million of the approximately \$104.3 million of related project expenditures, for an average MBE participation rate of 22 percent. The individual MBE participation rates for the five projects ranged from 20 percent to 25 percent. Furthermore, although two of these five projects were not fully completed, if the remaining contract amounts were all paid to MBE contractors, the 30 percent MBE participation goal would still not be met, according to MSU records. Although MSU required its contractors to self-report their subcontractor expenditures each month, there was no documented process for monitoring or verifying this information.

**Recommendation 8**

**We recommend that MSU take appropriate steps to help ensure that MBE participation goals on its construction projects are achieved to the greatest extent possible.**

**Finding 9****MSU lacked documentation to substantiate that construction project inspections had been completed.****Analysis**

Our review of three construction projects disclosed that MSU lacked documentation of construction project inspections. In that regard, MSU contract documents provide that all work is subject to review by MSU inspectors, and that inspectors are authorized to call the attention of the contractor to any failure of the work to conform to the contract. However, we were advised by DCM personnel that MSU discontinued preparation of written reports to document its inspection activities in May 2006. DCM personnel could not readily explain why the preparation of written inspection reports was discontinued.

Additionally, MSU contracted with architectural and engineering firms to monitor the quality of construction contractor work and to ensure contractor compliance with project plans and specifications. However, written inspection reports were not required. Furthermore, although the contractor, architectural and engineering firm personnel, and DCM personnel participated in periodic progress meetings, the related meeting minutes were not sufficiently detailed to document the extent of on-site inspections performed by the architectural and engineering firms.

Documentation of project inspections helps to ensure that construction projects are being adequately monitored and that payments to contractors, which totaled approximately \$34.3 million during fiscal year 2007, are proper. Payments to contractors are made based on a percentage of completion of the project as agreed to by the contractor, MSU, and the architectural/engineering firm. Without inspection documentation, the basis for payments to the contractors lacks adequate substantiation.

**Recommendation 9**

**We recommend that written documentation of project inspections be maintained to substantiate the extent of project completion and the results of inspections performed. We further recommend that this inspection documentation be reviewed by MSU personnel that approve related project payments to ensure that payments to contractors are proper.**

## Fiscal Operations

### Payroll Overpayments

#### **Finding 10**

**MSU had not established adequate payroll processing procedures, resulting in improper salary payments totaling \$121,400. In addition, MSU failed to report these instances to the appropriate authorities, as required.**

#### **Analysis**

MSU had not established adequate procedures for preventing and detecting improper payroll payments to employees inappropriately included on both its regular and contractual payrolls. While legitimate circumstances exist for employees to be included on both payrolls (such as a faculty member on the regular payroll who is also paid contractually for teaching a summer semester course), prior to June 2006, no formal verification procedures were in place. Although, in June 2006, MSU initiated a process to periodically obtain reports of dual employment from the Comptroller of the Treasury's Central Payroll Bureau, for the two reports obtained, reviews performed were not comprehensive or documented and were conducted by an employee involved in the payroll processing functions. Our comparison of the MSU regular and contractual payrolls disclosed that 164 employees were included on both payrolls during fiscal year 2006; payments to these employees totaled approximately \$11 million.

As a result of these inadequate procedures, MSU discovered, through other means, that two employees were improperly paid simultaneously on both its regular and contractual payrolls. Salary overpayments made to these employees totaled \$121,400 and were not detected timely by MSU, nor did the affected employees notify MSU of the overpayments. Furthermore, MSU did not refer these overpayments to the Office of the Attorney General's Criminal Division (OAG-CD) and the Chief Counsel to the Governor, as required by the relevant Governor's Executive Order. Although MSU initiated payroll deductions to recover the salary overpayments, written repayment agreements were not executed and MSU's efforts to complete the investigations and recover the overpayments were inadequate. Details of the two overpayments are as follows:

- In October 2005, MSU discovered that a regular employee received salary overpayments totaling approximately \$75,000 during the period from August 2004 through June 2005. However, MSU did not complete its investigation of the overpayment and issue the related report until January 2007 at which time

the matter was referred to OAG-CD, 15 months after the overpayment was discovered. The employee left MSU service in August 2006 when the employee's contract expired after repaying only \$49,800, and no attempt was subsequently made to collect the unpaid balance of \$25,200. As of June 2007, the unpaid balance was still outstanding and had not been referred to the Department of Budget and Management's Central Collection Unit (CCU) for pursuit.

- MSU discovered in January 2007 that another employee received salary overpayments totaling approximately \$46,400 during the period from September 2005 through May 2006. MSU did not complete an investigation of this overpayment until May 2007, but still had not referred the overpayment to OAG-CD for consideration. Payroll deductions were authorized by MSU upper management personnel in May 2007 but, under the existing repayment arrangements (that is, \$500 per month), it will take MSU more than seven years to recover the overpayments.

#### **Recommendation 10**

**We recommend that MSU verify the employment status of employees to be added to its payrolls and determine the legitimacy of any dual employment, before processing. We further recommend that independent reviews of employees on dual payrolls be performed periodically (for example, semi-annually) and documented. Additionally, we recommend that MSU report all instances of possible criminal or unethical employee conduct to appropriate State officials. After consulting with appropriate State officials, we recommend that MSU promptly investigate incidents of possible employee misconduct, aggressively pursue recovery of any payroll overpayments, and forward unpaid accounts to CCU as required. Finally, we recommend that any payroll recovery actions involving installment repayments be supported by a written repayment plan signed by the employee and a representative of MSU, with terms that provide for the timely repayment of the applicable overpayments.**

## Grants

### Background

MSU receives various grants for student financial aid as well as grants from federal, state, and private entities for research and development. During fiscal year 2006, grant collections totaled approximately \$62.7 million.

### Finding 11

**Adequate collection efforts were not performed for outstanding grant receivables, and delinquent accounts were not transferred to the Department of Budget and Management's Central Collection Unit, as required.**

### Analysis

MSU did not adequately pursue collection of outstanding grant reimbursement requests, and delinquent grant accounts were not transferred to the Department of Budget and Management's Central Collection Unit (CCU), as required by State regulations. Specifically, written payment demands for outstanding grant reimbursement requests were not sent to the appropriate grantor agencies at predetermined intervals. Rather, after the initial billings, MSU generally relied on telephone contacts with the agencies to request payment. As of January 2007, there were 17 delinquent grant accounts, totaling approximately \$985,000, that had been outstanding for periods ranging from approximately 3 to 22 months, and none of the accounts had been transferred to CCU. Furthermore, for 9 of the 17 accounts, there was no evidence that MSU had contacted the grantor agencies to determine why the amounts billed had not been paid. Delays in the pursuit of outstanding debts may decrease the likelihood of collecting the funds.

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. According to MSU records, receivables due from grant reimbursement requests totaled approximately \$1.3 million as of January 2007. The grants in question are primarily from State agencies and private corporations for sponsored research or employee training expenses.

### Recommendation 11

**We recommend that written payment demands be sent to the appropriate grantor agencies and delinquent accounts be transferred to CCU, as required by State regulations.**

**Finding 12**

**MSU did not transfer all open grant accounts from its previous automated financial system to its current system. In addition, MSU did not investigate and resolve expired grants with outstanding balances in a timely manner.**

**Analysis**

MSU had not established adequate grant data conversion procedures to ensure that all grant accounts with outstanding balances were transferred from the previous automated system to its current system. Specifically, we were advised by grant accounting personnel that, beginning in November 2004, MSU's Information Technology (IT) Department performed the grant data conversion process without involving grant personnel. In addition, a documented reconciliation of the grant data in the two systems was not performed to verify the accuracy and completeness of the data converted. Consequently, as of March 2007, 241 grant accounts with outstanding deficit (expenditures exceeded revenues) and surplus (revenues exceeded expenditures) balances, totaling approximately \$2.4 million and \$2.3 million, respectively, had not been transferred from the previous system to the current system. We were advised by grant accounting personnel that these accounts were expired grants that had no activity during 2003 and, therefore, were not identified for transfer by the conversion program developed by the IT Department.

In addition, MSU did not adequately investigate and resolve expired grants with outstanding balances. For example, our review disclosed that 238 grants expired during fiscal years 2004 through 2006 with outstanding deficit and surplus balances totaling approximately \$1.6 million and \$1 million, respectively (excluding the aforementioned grant accounts that were not properly transferred to the current system). However, as of June 2007, MSU had not investigated and resolved these outstanding balances. A similar situation was commented upon in our preceding audit report.

**Recommendation 12**

**We recommend that MSU take immediate action to ensure that all grant accounts with an outstanding balance are included on its current system. We further recommend that, in the future, MSU establish adequate data conversion procedures to ensure that all existing data is transferred to the new system. Finally, we again recommend that MSU determine the proper disposition of expired grants with outstanding balances.**

## Cash Receipts and Related Reconciliations

### **Finding 13**

**MSU did not always maintain critical collection and deposit documentation, including evidence of independent verifications of deposits. In addition, reconciliations of its revenue records with the related records of the Comptroller of the Treasury were inadequate.**

### **Analysis**

Although we were advised that MSU had established procedures to independently verify that collections received by the Bursar's Office were deposited and recorded in the State's accounting records, related documentation was not always maintained. Consequently, there was a lack of assurance that collections were properly deposited and recorded.

Our test of collections received for 20 days during fiscal years 2006 and 2007, totaling approximately \$4.7 million, disclosed that, for collections for 19 days totaling approximately \$4.4 million, there was no documentation to substantiate that recorded collections were independently verified to deposit. Additionally, MSU lacked documentation that collections for 4 days, totaling approximately \$1.6 million, had been properly recorded in the State's accounting records, and could not readily provide us with validated deposit slips for collections for 8 days totaling approximately \$2.9 million. We were able to subsequently verify, in consultation with the State Treasurer's Office, that all of the aforementioned collections were properly deposited and recorded.

Additionally, MSU had not prepared timely reconciliations of revenue recorded in its accounting records with the corresponding records of the Comptroller of the Treasury. As of May 2007, the most recent reconciliation completed was as of November 2006, and this reconciliation included significant reconciling items that were not resolved. For example, the reconciliation disclosed that student tuition and fees totaling approximately \$35.8 million received during the period from August 2006 to November 2006 had been recorded on MSU accounting records but MSU had not yet documented that these tuition and fees had been recorded on the Comptroller's records. We were advised by MSU management personnel that the completion of revenue reconciliations had been delayed due to problems encountered with implementation of an automated interface between its accounting records and the Comptroller's records. As a result of this deficiency, errors and irregularities in the processing and recording of MSU revenue could occur and not be readily detected.

According to MSU's records, during fiscal year 2006, the Bursar's Office processed collections totaling approximately \$88.6 million.

**Recommendation 13**

**We recommend that MSU perform properly documented independent verifications to substantiate that all Bursar's Office collections received were accounted for, deposited, and recorded in the State's accounting records on a timely basis. Additionally, we recommend that MSU reconcile revenue recorded in its accounting records with the corresponding records of the Comptroller of the Treasury monthly, and that reconciling items be promptly investigated and resolved.**

**Information Systems Security and Control**

**Background**

MSU's Information Technology Department (ITD) provides information technology support to MSU by maintaining campus-wide administrative applications, such as the student administration, human resources and financial systems. The ITD 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. MSU also maintains a website that functions as an entry point to many of MSU's services.

**Finding 14**  
**MSU's computer network was not adequately secured.**

**Analysis**

Security over MSU's internal network was inadequate. Specifically, we noted the following conditions:

- A number of widely accessible servers were located on the internal network rather than in a separate network zone to minimize security risks. These servers, which could potentially be compromised, exposed the internal network to attack from external sources.
- Firewall rules allowed various unnecessary or outdated connections to portions of MSU's internal network, placing various network devices at risk. For example, we identified 229 firewall rules, which MSU could not identify

the need for, that allowed access to specific devices in MSU's internal network over numerous ports.

- Key administrative systems were not adequately protected from untrusted portions of MSU's network. Specifically, numerous computer labs and wireless networks spread throughout the campus had unnecessary network level access to critical campus administrative resources.
- IDPS (intrusion detection prevention systems) were not used to protect MSU's network. IDPS gather and analyze network traffic to identify and block network security breaches and attacks, and alert network administrators of these situations. A similar condition was commented upon in our preceding audit report.
- Numerous users within MSU's network had unnecessary network level access to MSU's firewalls for administrative purposes. Access rules for these critical network devices should use a "least privilege" security strategy which gives individuals only those privileges needed to perform assigned tasks.

#### **Recommendation 14**

**We recommend that MSU improve security over its internal network.**

**Specifically, we made detailed recommendations, which if implemented, should provide for adequate security over the internal network.**

#### **Finding 15**

**Administration and monitoring of a critical network device need improvement.**

#### **Analysis**

Administration and monitoring of a critical network device, capable of protecting the internal network from security risks, need improvement. Specifically, we noted the following conditions with respect to a core network device:

- Numerous individuals had unnecessary administrative access, at the network level, to a critical core network device. In addition, an insecure administrative connection protocol was enabled 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.
- Security event information from this critical device was configured to be sent to a specific MSU server. However, this server had been retired three years

ago and no longer existed. As a result, all security event information from this critical device was lost.

#### **Recommendation 15**

**We recommend that administrative access to critical network devices be limited to personnel requiring such access and that only secure connection protocols be enabled on these devices. We further recommend that log files for critical network devices be recorded on a separate logging server, that these logs be reviewed on a daily basis, and that these reviews be documented and retained for audit verification.**

### **Student Accounts Receivable**

#### **Finding 16**

**Reconciliations of MSU's detail student accounts receivable records with the related control records were not adequately performed.**

#### **Analysis**

Reconciliations of MSU's detail student accounts receivable records with the related control records were not adequately performed. Specifically, MSU implemented automated daily reconciliations of its detail student accounts receivable records with the related control records in November 2006. However, as of January 2007, the reconciliations reflected a net difference of approximately \$343,000 consisting of debit and credit transactions totaling approximately \$6.7 million and \$6.4 million, respectively, that had not been adequately investigated and resolved. We were advised by MSU management personnel that approximately \$4.9 million of the debit transactions was caused by coding errors, but MSU was attempting to identify the reasons for the remaining differences before processing any correcting entries.

The lack of adequate reconciliations between the student accounts receivable detail and control records was also commented upon in our two preceding audit reports.

#### **Recommendation 16**

**We again recommend that MSU promptly investigate and determine the proper disposition of differences noted during reconciliations of its detail student accounts receivable records with the corresponding control records, document the results of such investigations, and adjust the records as appropriate.**

## Student Grade Changes

### **Finding 17**

**MSU had not established adequate controls over changes to student grades.**

### **Analysis**

Adequate internal control had not been established over student grade changes. Specifically, MSU did not generate output reports of student grade changes to facilitate an independent verification of recorded changes to applicable source documents. As a result, unauthorized modifications could be made to student grades without detection.

Grade changes are processed by certain employees in the Registrar's Office based on grade change forms initiated by a faculty member and approved by the applicable dean. We were advised that approximately 1,200 grade changes were processed during the fall 2006 and spring 2007 semesters.

### **Recommendation 17**

**We recommend that output reports of changes to recorded student grades be generated and that the changes be verified to the related source documents by employees independent of the grade change functions. We further recommend that these verifications be documented and retained for future reference.**



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

We have audited Morgan State University (MSU) for the period beginning November 1, 2003 and ending January 31, 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 MSU'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 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.

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

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*

February 7, 2008

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 November 1, 2003 and ending January 31, 2007.

Very truly yours,

  
Earl S. Richardson  
President

Enclosure

Cc: Kevin M. O'Keefe, Chair, Maryland Higher Education Commission  
Dallas R. Evans, Chair, Board of Regents, Morgan State University  
James E. Lyons, Sr., Ph.D., Secretary of Higher Education, Maryland  
Higher Education Commission

Responses to Audit Report

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**Morgan State University**

February 2008

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# Responses to Findings and Recommendations

## Capital Improvement Projects

### Telecommunications Hub Relocation Project

#### **Finding 1**

**MSU did not disclose to the BPW that \$3.1 million of the \$4.3 million original contract represented undefined allowance funds that lacked specific deliverables and that were not subject to competitive bidding. Furthermore, these funds were primarily used by MSU to pay for work on unrelated contracts that were awarded to the same contractor.**

#### **Recommendation 1**

**We recommend that MSU report the aforementioned undefined allowance to the BPW for its review. We further recommend that, in the future, MSU fully disclose all material facts regarding contracts submitted to the BPW for approval.**

#### University's Response:

The University agrees with the recommendations. The University regrets its failure to specifically alert the Board of Public Works about this allowance and will take steps to prevent a reoccurrence of such a situation through a more thorough review of all future Board of Public Works submissions. The University has already taken steps to report the item to the Board of Public Works as recommended. Although this is a serious matter, the University believes that this was an isolated occurrence and, again, will take steps to prevent this from reoccurring.

#### **Finding 2**

**MSU procedures for reviewing project invoices were inadequate. Our audit identified charges that were not verified or supported, payments for equipment and services that were never received, and charges for duplicate items, resulting in questionable payments of up to \$2.4 million.**

#### **Recommendation 2**

**We recommend that MSU review all invoices paid under the project (including invoices for change orders and undefined allowance costs), determine the amount of overpayments made, and take immediate action to**

**recover overpayments made. We also recommend that, in the future, MSU require contractors to submit invoices in sufficient detail to facilitate review, and that MSU conduct thorough reviews of billed charges that include reviews of supporting documentation, as well as mathematical accuracy of the invoices and verifications that all items billed had been received. We further recommend that, in the future, MSU assign employees with appropriate technical knowledge to review and approve contractor invoices.**

University's Response:

The University agrees with the recommendations. Specifically, it will conduct a review of all invoices paid under the project, determine the amount of any overpayments and seek prompt reimbursement. Regarding the licenses and circuit board housing units, the University has received and is reviewing information from the manufacturer that supports the propriety of the payments made. The University realizes the need for more systematic and timely processing and verification of transactions associated with its capital projects. It will ensure that the auditors' recommendations are systematically implemented.

### **Finding 3**

**MSU processed change orders totaling approximately \$2.3 million to purchase goods and services that were outside the scope of the original project, rather than initiate a new procurement. Furthermore, certain of these change orders appeared to have been artificially divided to circumvent required BPW approval.**

### **Recommendation 3**

**We recommend that MSU report the aforementioned telecommunication system upgrades to the BPW for its review. We also recommend that MSU initiate new procurements, rather than process change orders to existing contracts for work that is outside the contract scope, and comply with the spirit and intent of State Procurement Regulations by not dividing change orders to avoid required BPW approval. In the future, we recommend that MSU report new contracts, as well as changes to the scope of original contracts, in excess of \$500,000, to the BPW. Finally, we recommend that MSU investigate the disposition of the original equipment and maintain records of equipment purchased, transferred, or disposed of.**

University's response:

The University regrets the appearance of intent to circumvent Board of Public Works requirements. In this regard, it has taken steps to report the item to the Board of Public Works as recommended. The circumstances surrounding this hub

relocation project necessitated step-by-step decisions and installation of the new equipment. For example, although the original scope of work included continuation of the existing copper wire for transmission of voice signals, the age and water in the existing conduit system, among other drawbacks, caused massive deterioration of the copper wire which supported the network. The piece-meal development over a long period of time of the current network made it impossible to continue to patch the existing system and still maintain service. Also, absence of reliable documentation of the existing copper network, made it difficult for an accurate pre-design/ construction evaluation of the underground network system. Constant signal disruption during construction due to the age and condition of the existing copper network, greatly compromised telecommunications services to the institution. Thus, we had to take immediate action in order to avoid the escalation of a telecommunication disaster at the institution.

We want to emphasize that circumstances involving this hub relocation were unusual. Changes to contracts are normally reviewed and authorized in writing prior to initiation of work by the contractor. However, in certain cases, (particularly in this hub contract), finalization of change orders did occur after some of the work had been completed and paid for. Again, we had to take immediate action in order to avoid the escalation of a telecommunication disaster at the institution. As indicated above, this has been an unusually complex project which necessitated an unusual level of involvement, and we regret the resulting difficulties.

Finally, the University will closely monitor the scope-of-work of all proposed change orders to ensure that there are no artificially divided change orders and will initiate new procurements, rather than process change orders to existing contracts for work that is outside the contract scope..

MSU will investigate the disposition of the original equipment and maintain records of equipment purchased, transferred, or disposed of. Because the University had not accepted ownership of the system, the equipment was not recorded in its detail equipment records, but was included in the University's construction-in-progress records. The equipment for this project was not transferred, or disposed of, but was recycled as part of the original project. The University will properly account for the original and newly acquired equipment.

**Finding 4**

**MSU allowed the contractor that was awarded the contract to increase its bid on a project by \$68,000 with no apparent change in the scope of work to be performed. In addition, MSU appeared to artificially divide the related project costs to avoid required BPW approval.**

**Recommendation 4**

**We recommend that MSU discontinue the practices of allowing contractors to increase their bid amounts without a substantive change in the scope of work to be performed. We also recommend that MSU refrain from artificially dividing construction projects thereby circumventing required BPW approval. Additionally, we recommend that, in the future, MSU prepare and retain documentation of changes in project scope.**

University's response:

The University submits that the circumstance, under which a contractor adjusts an original bid, during a rebidding process, is permissible under existing procurement rules. When a project is competitively rebid, the contractors have the prerogative to review all costs associated with the project. During this exercise, contractors are not precluded from adjusting their bids either upwards or downwards. When a contractor revises his bid upward, it is likely an indication that a subcontractor discovered an error in his initial submission and informed the contractor of a change in his bid cost. During a competitive rebid process, bidders cannot be prohibited from changing their bids for whatever reason. However, the University will follow-up and document, to the extent possible, why an increased price on a bid occurred.

The University has already instituted measures to carefully evaluate all change orders to eliminate any attempt at splitting in order to circumvent Board of Public Works approval. In addition, all change orders approaching the Board of Public Works approval threshold, will be appropriately documented and filed in order to clarify any misunderstanding.

**Finding 5**

**MSU authorized the contractor to perform certain work even though funds were not available for payment.**

**Recommendation 5**

**We recommend that MSU discontinue the practice of authorizing a contractor to perform work when funds were not appropriated for such purposes.**

University's Response:

The University agrees with the recommendation. The University does not condone the practice of authorizing work to be performed when funds are not available.

## General Practices for Capital Improvement Projects

### **Finding 6**

**Change orders were frequently approved after the related work had been completed and paid for.**

### **Recommendation 6**

**We recommend that, in the future, change orders be prepared and approved by MSU senior management personnel, before the related work is authorized, completed, and paid for.**

#### University's Response:

The University agrees with the recommendation. The circumstances which precipitated these findings and recommendations were unusual and extraordinary. Among the projects the University managed during the period under review, were the relocation of its Telecommunications Hub, upgrading of its utility systems, construction of a steam boiler plant and a utility tunnel, and renovation of the bridge over a major city artery which connects much of the utility services to both the north and south segments of the campus. The interconnectivity of these major projects presented a very complex set of challenges, some of which resulted in the issues cited and resulting recommendations by the auditors. More specifically, the challenge of relocating the antiquated and failing central Telecommunications Hub without disrupting the ongoing operations, while also providing timely services to several projects in process, presented an unusually complex set of challenges.

To ensure consistent implementation, the University has established a Change Order Review Committee to evaluate and verify all change orders before the work is authorized.

### **Finding 7**

**MSU had not assessed liquidated damages, totaling \$3.1 million, related to three construction projects that were from 16 to 23 months past their scheduled completion dates as of August 2007, and had not documented why such action was not taken.**

### **Recommendation 7**

**We recommend that MSU assess and seek recovery of the full amount of liquidated damages applicable to construction projects for which contractors fail to complete the projects by the scheduled completion dates, including the**

**aforementioned projects, or adequately document why such action was not taken. We also recommend that MSU continue to pursue collection of the liquidated damages assessed against the aforementioned contractor.**

University response:

The University acknowledges and accepts its responsibility to assess and recover liquidated damages, as applicable. The decision to assess liquidated damages on any project is made in conjunction with the University's General Counsel and the Office of the Attorney General, after the Certificate of Substantial Completion is issued, which establishes the date that the facility is useable for its intended purpose, but prior to the actual project close-out. Regarding the three projects indicated, one project has not reached Substantial Completion, another project is in the process of final close-out and no final decision has been made regarding liquidated damages, and the third project was delayed for causes that were not the fault of the contractor. Appropriate documentation, for the actions taken, will be developed and filed.

**Finding 8**

**MSU frequently did not meet its minority business enterprise participation goals on construction projects.**

**Recommendation 8**

**We recommend that MSU take appropriate steps to help ensure that MBE participation goals on its construction projects are achieved to the greatest extent possible.**

University's response:

The University believes that it has taken appropriate steps to ensure that MBE participation goals on its construction project are met and, to the extent of its ability, the University utilizes procedures to monitor awarding of contracts and payments to MBE firms. In this regard, the University's MBE FY2006 participation of twenty-six percent (26%) is ranked among the highest performers in the State's Higher Education Community. Realizing that there is room for improvement, the University has taken additional steps to improve its MBE participation and performance. Specifically, in July 2007, a dedicated MBE Officer was assigned to the Procurement Department to institute an aggressive compliance program focused on monitoring contractors' MBE requirements. The University's intent is to intervene at the earliest opportunity by conducting meetings between the general contractor and the University MBE Officer for the purpose of contractors providing evidence of payments to MBE subcontractors. The MBE compliance meetings will address the present project MBE percentages, the anticipated MBE percentages, and a plan for improving those percentages, if needed.

Attention will be paid to contract modifications that increase the overall value of the contract to, if feasible, require the appropriate MBE participation. Additionally, the MBE Officer will review the required General Contractors' MBE subcontractor monthly report of their payments, for the purpose of checking what is reported by the general contractor against what is paid to the MBE subcontractor.

The University will continue to respond to complaints from aggrieved subcontractors to assist them in their efforts in having the general contractors honor their contractual obligations. Again, we realize that there is room for improvement and we are optimistic that the additional manpower and aggressive monitoring will assist us in achieving our MBE goal

**Finding 9**

**MSU lacked documentation to substantiate that construction project inspections had been completed.**

**Recommendation 9**

**We recommend that written documentation of project inspections be maintained to substantiate the extent of project completion and the results of inspections performed. We further recommend that this inspection documentation be reviewed by MSU personnel that approve related project payments to ensure that payments to contractors are proper.**

University's response:

The University agrees with the recommendations. Although the University continues to perform daily inspections of the larger construction projects, it had temporarily discontinued its practice of preparing and maintaining copies of the daily inspection reports due to employee vacancies. These ongoing inspections normally occur prior to progress meetings and prior to the review of the contractors' requests for payment. Issues noted during the inspections are documented in other ways (e.g., Architect's Supplemental Instructions and Request for Information). Progress meeting minutes also reflect the current status of the project and address unresolved issues. Procedures require that all payments to contractors be reviewed by the architect of record, the MSU Construction Manager and MSU's Director of Design and Construction Management to insure that the requested payments are proper and accurately reflect the work performed.

To ensure the strictest adherence to requirements for inspection, adequate documentation, and management reviews, the University will be adding two positions to the department, in addition to accelerating the process for filling the

vacant positions in the department. This will assist in complying with the auditors' recommendations.

## Fiscal Operations

### Payroll Overpayments

**Finding 10**

**MSU had not established adequate payroll processing procedures, resulting in improper salary payments totaling \$121,400. In addition, MSU failed to report these instances to the appropriate authorities, as required.**

**Recommendation 10**

**We recommend that MSU verify the employment status of employees to be added to its payrolls and determine the legitimacy of any dual employment, before processing. We further recommend that independent reviews of employees on dual payrolls be performed periodically (for example, semi-annually) and documented. Additionally, we recommend that MSU report all instances of possible criminal or unethical employee conduct to appropriate State officials. After consulting with appropriate State officials, we recommend that MSU promptly investigate incidents of possible employee misconduct, aggressively pursue recovery of any payroll overpayments, and forward unpaid accounts to CCU as required. Finally, we recommend that any payroll recovery actions involving installment repayments be supported by a written repayment plan signed by the employee and a representative of MSU, with terms that provide for the timely repayment of the applicable overpayments.**

University's response:

The University agrees with the recommendations. Specifically, when employment requests are submitted for processing, a review is made of Banner Human Resources system to assure that the employee is not placed inappropriately on more than one payroll. In addition, the review of dual employment is made on a quarterly basis by an employee not involved in the payroll process. The review requires the individual to determine if the employee is authorized to be on both the regular and contractual payroll. This process includes verification with other State agencies when one of the employment activities is done outside of the University. Documentation will be retained for audit verification.

As further recommended, the University will promptly report all instances of possible criminal or unethical employee conduct to the appropriate State officials. The University agrees to promptly investigate incidents of possible employee misconduct, aggressively pursue recovery of any payroll overpayments, and forward unpaid accounts to CCU as required. Standard procedures involving installment repayments have been revised to include a report to the appropriate University official and a written repayment plan allowing for a timely repayment of the funds signed by the employee and a University official.

## **Grants**

### **Finding 11**

**Adequate collection efforts were not performed for outstanding grant receivables, and delinquent accounts were not transferred to the Department of Budget and Management's Central Collection Unit, as required.**

### **Recommendation 11**

**We recommend that written payment demands be sent to the appropriate grantor agencies and delinquent accounts be transferred to CCU, as required by State regulations.**

University's response:

The University agrees that it needs to improve its collection efforts, including timely referral of delinquent accounts to CCU. Over the past decade, the Restricted Funds Accounting department has experienced significant turnover, at both the director and staff levels, thereby challenging the University in its management of grants and contracts activities. This challenge was further compounded by utilization of an antiquated information technology system without a grants management module. In fiscal 2005, the University initiated the implementation of a new integrated system to manage these grants and contracts. Unfortunately, this new system is not fully integrated and continues to confront us with challenges in the management of these grants and contracts. The University is diligently working with its system consultant to correct this situation and expects a solution of automated billings and forwarding of delinquent accounts to the Central Collection Unit within months.

### **Finding 12**

**MSU did not transfer all open grant accounts from its previous automated financial system to its current system. In addition, MSU did not investigate and resolve expired grants with outstanding balances in a timely manner.**

### **Recommendation 12**

**We recommend that MSU take immediate action to ensure that all grant accounts with an outstanding balance are included on its current system. We further recommend that, in the future, MSU establish adequate data conversion procedures to ensure that all existing data is transferred to the new system. Finally, we again recommend that MSU determine the proper disposition of expired grants with outstanding balances.**

University's response:

The University agrees with the auditors' recommendations. As indicated above, the Restricted Funds Accounting department experienced significant turnover at the director and staff levels, thereby challenging the University in its management for grants and contracts activities. This challenge was further compounded by utilization of an antiquated information technology system without a grants management module. As recommended by the auditors, the University will convert the inactive grants that are currently accounted for in a sub-system to our new integrated system. In addition, the University recognizes the need to determine the proper disposition of the expired grants and intends to vigorously pursue this matter in the near future.

## **Cash Receipts and Related Reconciliations**

### **Finding 13**

**MSU did not always maintain critical collection and deposit documentation, including evidence of independent verifications of deposits. In addition, reconciliations of its revenue records with the related records of the Comptroller of the Treasury were inadequate.**

### **Recommendation 13**

**We recommend that MSU perform properly documented independent verifications to substantiate that all Bursar's Office collections received were accounted for, deposited, and recorded in the State's accounting records on a timely basis. Additionally, we recommend that MSU reconcile revenue recorded in its accounting records with the corresponding records of the Comptroller of the Treasury monthly, and that reconciling items be promptly investigated and resolved.**

University's Response:

The University agrees with the recommendations. There was a lapse in the documentation of the procedures performed during part of the audit period. The

University has made personnel changes and has improved its documentation retention practices. Regarding the revenue reconciliation process, the University was in the final stages of implementing the Banner Student module, which included an interface with the State's Financial Management System (FMIS), when the audit was being conducted. The interface between the University and FMIS was completed during May 2007 at which time we were able to post to and reconcile transactions with FMIS. The revenue reconciliation is being performed on a current basis.

## **Information Systems Security and Control**

### **Finding 14**

**MSU's computer network was not adequately secured.**

### **Recommendation 14**

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

### **University's Response:**

The University agrees with the recommendations. It has already implemented several of the auditors' detailed recommendations. Regarding the remaining recommendations, the University intends to begin implementation of the final phase of its network security plan by February 29, 2008 with a target completion date of June 30, 2008. It believes that the network security plan, when implemented, will address all of the auditors' recommendations.

### **Finding 15**

**Administration and monitoring of a critical network device need improvement.**

### **Recommendation 15**

**We recommend that administrative access to critical network devices be limited to personnel requiring such access and that only secure connection protocols be enabled on these devices. We further recommend that log files for critical network devices be recorded on a separate logging server, that these logs be reviewed on a daily basis, and that these reviews be documented and retained for audit verification.**

#### University's Response:

The University agrees with the recommendations. It has implemented the recommendations regarding use of a secure communications protocol and the logging activities as noted by the auditors. The University intends to begin implementation of the final phase of its network security plan by February 29, 2008 with a target completion date of June 30, 2008. Among other enhancements, this phase will restrict access to critical network devices to authorized personnel.

### **Student Accounts Receivable**

#### **Finding 16**

**Reconciliations of MSU's detail student accounts receivable records with the related control records were not adequately performed.**

#### **Recommendation 16**

**We again recommend that MSU promptly investigate and determine the proper disposition of differences noted during reconciliations of its detail student accounts receivable records with the corresponding control records, document the results of such investigations, and adjust the records as appropriate.**

The University agrees with the auditors' recommendation. In August 2006, the University converted its prior student information system to its new student system (Banner Student). When the University implemented its automated daily reconciliation process, it realized that the accounting feeds from Banner Student were not posting properly. After spending the remainder of fiscal year 2007 investigating the differences, the University made adjustments to student accounts receivable and payable balances as part of the year end close out process to bring the records into balance. As a result of the investigation, the University re-configured the accounting feeds. As of January 2, 2008, the records are reconciled with minimal differences. The University is satisfied that the daily automated reconciliation process is working.

### **Student Grade Changes**

#### **Finding 17**

**MSU had not established adequate controls over changes to student grades.**

**Recommendation 17**

**We recommend that output reports of changes to recorded student grades be generated and that the changes be verified to the related source documents by employees independent of the grade change functions. We further recommend that these verifications be documented and retained for future reference.**

University's Response:

The University agrees with the recommendations. Problems associated with the conversion to the Banner Student system, as well as personnel changes, contributed to the delay in verifying the propriety of grade changes. It will immediately re-establish an independent verification process to conform to the auditors' recommendations.

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