

Audit Report

**University System of Maryland
University of Maryland Center for Environmental
Science**

April 2009



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

April 23, 2009

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

Ladies and Gentlemen:

We have audited the University System of Maryland (USM) – University of Maryland Center for Environmental Science (UMCES) for the period beginning June 12, 2006 and ending December 2, 2008. UMCES engages in environmental research, public service, and educational activities at three regional laboratories. UMCES also includes the Sea Grant College, which coordinates the research efforts of the University System of Maryland that are associated with the U.S. Department of Commerce's National Oceanic and Atmospheric Administration.

Our audit disclosed that credit limits for corporate purchasing cards held by employees were not evaluated to ensure that they were appropriate in relation to card usage. In addition, we found that the performance of certain critical cash receipts control procedures had not been adequately documented.

The response from the USM Office, on behalf of UMCES, to our findings and recommendations is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by UMCES.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The University of Maryland Center for Environmental Science (UMCES) engages in environmental research, public service, and educational activities at three regional laboratories: Appalachian Laboratory in Frostburg, Chesapeake Biological Laboratory in Solomons, and Horn Point Laboratory in Cambridge, Maryland. UMCES also includes the Sea Grant College, which coordinates the research efforts of the University System of Maryland that are associated with the U.S. Department of Commerce's National Oceanic and Atmospheric Administration. UMCES' administrative office is located in Cambridge. The UMCES budget is funded by unrestricted revenues, such as State appropriations, and by restricted revenues, such as federal grants. According to State records, UMCES' fiscal year 2008 revenues totaled approximately \$36 million, which included a State general fund appropriation of approximately \$15.4 million. The State records also indicated that UMCES expenditures for fiscal year 2008 totaled approximately \$36 million.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated October 11, 2006. We determined that UMCES had satisfactorily resolved that finding.

Findings and Recommendations

Corporate Purchasing Cards

Finding 1

Credit limits for corporate purchasing cards were not adequately evaluated.

Analysis

Credit limits for corporate purchasing cards held by employees were not adequately evaluated in relation to card usage. Credit limits were unnecessarily high for certain cards, and we questioned whether certain cardholders required a card at all.

As of June 30, 2008, according to the bank's records, the University of Maryland Center for Environmental Science (UMCES) had 87 active purchasing cards, and according to the State's accounting records, related expenditures totaled approximately \$2.5 million during fiscal year 2008. Our review of cardholder usage for fiscal year 2008 disclosed that expenditures charged to 49 cards averaged less than 10% of the monthly credit limit for those cards, which ranged between \$2,500 and \$15,000. In addition, expenditures for 14 of those cards totaled less than \$500 for the entire year, including 8 cards with no expenditures at all. UMCES had approximately 260 authorized positions in fiscal year 2008.

The Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual* stipulates that cards be issued only to employees who need them on a regular basis. Controls over purchasing cards can be improved by ensuring that credit limits for individual cards are appropriate in relation to usage, and that cards are issued only to employees who require them on a regular basis for their job duties.

Recommendation 1

We recommend

- a. that UMCES periodically evaluate established corporate purchasing card credit limits to ensure that the limits are appropriate in relation to purchasing card usage, and**
- b. that purchasing cards be issued only to employees who need them on a regular basis to perform their job duties.**

Cash Receipts

Finding 2

Certain critical control procedures were not adequately documented.

Analysis

Although a procedure had been established at UMCES' Central Administration to verify recorded collections to receipt by the University System of Maryland's College Park campus, we noted that there was often a lack of documentation that this verification was performed. Collections received at Central Administration are recorded and submitted to the College Park campus for processing and deposit. The campus submits a document (receipt) back to UMCES to acknowledge receipt of the funds. These receipts were also to be used for verification purposes. However, our test of 10 deposits totaling approximately \$473,000 disclosed that 7 deposits totaling \$325,000 lacked evidence that the verification of recorded collections to the campus' receipt had been performed.

According to UMCES' records, collections at Central Administration during fiscal year 2008 totaled approximately \$2.4 million (excluding electronic transactions).

Recommendation 2

We recommend that UMCES verify all recorded collections were received for deposit and that this verification be documented.

Audit Scope, Objectives, and Methodology

We have audited the University System of Maryland (USM) – University of Maryland Center for Environmental Science (UMCES) for the period beginning June 12, 2006 and ending December 2, 2008. 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 UMCES' financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the finding 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 UMCES' operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services, such as the processing of cash receipts and vendor payment transmittals, provided to UMCES by the University of Maryland, College Park. These support services are included within the scope of our audit of the University of Maryland, College Park. In addition, our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of UMCES' compliance with federal laws and

regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including UMCES.

UMCES' 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 a finding relating to a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect UMCES' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to UMCES that did not warrant inclusion in this report.

The response from the USM Office, on behalf of UMCES, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the USM Office regarding the results of our review of its response.

APPENDIX



OFFICE OF THE CHANCELLOR

April 16, 2009

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

Re: Audit of University System of
Maryland - University of Maryland
Center for Environmental Science
Period of Audit: June 12, 2006 -
December 2, 2008

Dear Mr. Myers:

As requested in your letter of April 6, 2009 I am enclosing the University System of Maryland – University of Maryland Center for Environmental Science’s responses to the draft audit report for the period beginning June 12, 2006 and ending December 2, 2008.

President Boesch expresses his appreciation for the professionalism demonstrated by the audit team assigned to the UMCES legislative audit.

If you have any questions, please contact Robert Page at 301-445-1946 or e-mail him, rpage@usmd.edu.

Sincerely,

William E. Kirwan
Chancellor

WEK:mpk

Enclosure

cc: Dr. Donald F. Boesch, President, UMCES
Mr. Clifford M. Kendall, Chair, Board of Regents, USM
Mr. Robert L. Page, Comptroller, USM
Mr. Kevin M. O’Keefe, Chair, MHEC
Dr. James E. Lyons, Sr., Secretary of Higher Education, MHEC

1807
University of Maryland,
Baltimore

1856
University of Maryland,
College Park

1865
Bowie State University

1866
Towson University

1886
University of Maryland
Eastern Shore

1898
Frostburg State University

1900
Coppin State University

1925
Salisbury University

1925
University of Baltimore

1925
University of Maryland
Center for Environmental
Science

1947
University of Maryland
University College

1966
University of Maryland,
Baltimore County

1985
University of Maryland
Biotechnology Institute

**RESPONSE TO THE LEGISLATIVE AUDIT REPORT
UNIVERSITY SYSTEM OF MARYLAND – UNIVERSITY OF MARYLAND
CENTER FOR ENVIRONMENTAL SCIENCE
FOR THE PERIOD JUNE 12, 2006 – DECEMBER 2, 2008**

Corporate Purchasing Cards

Finding 1

Credit limits for corporate purchasing cards were not adequately evaluated.

Recommendation 1

We recommend

- a. that UMCES periodically evaluate established corporate purchasing card credit limits to ensure that the limits are appropriate in relation to purchasing card usage, and**
- b. that purchasing cards be issued only to employees who need them on a regular basis to perform their job duties.**

Response 1

UMCES currently follows the Corporate Purchasing Card policy of University of Maryland College Park. UMCES will communicate this policy to all labs to ensure that the business operations staff of each lab is following policy when allocating corporate purchase cards to employees and monitoring their use.

Additionally, Center Administration will conduct a review of existing corporate purchasing cards and will examine usage, as well as an expenditure comparison to credit limits. The results of this review will determine if any card privileges will be cancelled or card credit limits adjusted.

UMCES will conduct this review on an annual basis from this point forward.

Cash Receipts

Finding 2

Certain critical control procedures were not adequately documented.

Recommendation 2

We recommend that all recorded collections were received for deposit and that this verification be documented.

Response 2

MCES currently relies on the College Park campus to post all cash receipts to the FRS system. Each month, UMCES prepares an Aging Report from our internal billing data

**RESPONSE TO THE LEGISLATIVE AUDIT REPORT
UNIVERSITY SYSTEM OF MARYLAND – UNIVERSITY OF MARYLAND
CENTER FOR ENVIRONMENTAL SCIENCE
FOR THE PERIOD JUNE 12, 2006 – DECEMBER 2, 2008**

base. UMCES reconciles this Aging Report to FRS individual accounts. This is a control procedure and verifies cash receipt. With this, we believe that adequate controls and documentation are already in place. However, to validate our documentation, UMCES will require signature/initials of the person documenting receipt of funds on the back of each receipt.

Correction of the two findings has already been implemented to insure compliance with the Audit Teams recommendations.

AUDIT TEAM

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