

Audit Report

**University System of Maryland
University of Maryland, College Park**

July 2011



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

July 14, 2011

Bruce A. Myers, CPA
Legislative Auditor

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, 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, College Park (UMCP) for the period beginning January 7, 2008 and ending July 5, 2010. UMCP is a comprehensive public institution of USM and operates under the jurisdiction of USM's Board of Regents. UMCP offers a broad range of baccalaureate, master's, and doctoral programs in the liberal arts and sciences and selected professional fields.

Our audit disclosed that UMCP lacked comprehensive procedures to ensure that faculty workload reports were accurate and that certain types of faculty leave were documented and approved. In addition, services were obtained and payments were made totaling \$4.7 million without a properly executed written contract. Our audit also disclosed certain deficiencies concerning the monitoring of a revenue contract, the security over information systems, and the accounting for certain equipment.

The University System of Maryland Office's response to this audit, on behalf of UMCP, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by UMCP.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Bruce A. Myers'.

Bruce A. Myers, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The University of Maryland, College Park (UMCP) is the comprehensive research university for the State of Maryland and is the flagship institution of the University System of Maryland (USM). It offers baccalaureate, master's, and doctoral programs in the liberal arts and sciences and selected professional fields. For the 2010 school year, enrollment totaled 36,661.

UMCP's budget is funded by unrestricted revenues, such as tuition and fees and a State general fund appropriation, and restricted revenues, such as federal grants and contracts. According to the State's accounting records, fiscal year 2010 revenues totaled approximately \$1.5 billion, including a State general fund appropriation of approximately \$390 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the eight findings contained in our preceding audit report dated March 25, 2009. We determined that UMCP satisfactorily addressed six of the findings. The remaining two findings are repeated in this report.

Findings and Recommendations

Faculty Workload and Leave Monitoring

Finding 1

The University of Maryland, College Park (UMCP) did not adequately monitor its faculty to ensure compliance with certain policies.

Analysis

UMCP did not adequately monitor faculty workload and leave to ensure compliance with certain policies. According to UMCP records, as of May 10, 2010, UMCP employed 4,421 faculty working in 209 individual units within 27 departments. Our review disclosed the following conditions:

- UMCP did not adequately investigate conflicting information included on the faculty workload reports, which are prepared to demonstrate compliance with UMCP policy. Our review of the fiscal year 2010 faculty workload reports for 16 faculty members in 3 units disclosed information indicating that 2 faculty members did not meet minimum teaching workload requirements because they were on sabbatical leave; however, according to information recorded in the payroll system, these individuals were not on such leave. After bringing these discrepancies to its attention, UMCP advised that the workload reports were in error; the two members were not on sabbatical leave, but were engaged in research projects, which would justify a reduced teaching workload. However, documentation substantiating this assertion could not be readily provided.

Each department is responsible for reviewing faculty workload reports and providing an explanation for any deviations from the workload requirements (such as external research or approved sabbatical leave). The workload reports are then independently reviewed to ensure completeness and accuracy prior to the reports being submitted to the Provost and the University System of Maryland. The UMCP *Policy on Full-Time Faculty Workload*, states that the general standard expectation is that a faculty member will engage in teaching and advising activities equivalent to 5.5 course units per contract year. The *Policy* also notes that, based on the demonstrated substantial commitments of time and effort to other approved activities, the teaching expectation of individual faculty members may be reduced.

- Faculty members did not submit required documentation in support of authorized sabbatical leave in a timely manner. Specifically, our review of 10 faculty members who took authorized sabbatical leave during fiscal years

2009 and 2010 disclosed that 7 faculty members did not submit the required reports to UMCP within three months of returning from sabbatical leave, as required. Two of the seven faculty members submitted a report within six months of their return from sabbatical leave; although reminder notices were sent, as of January 7, 2011, the remaining five faculty members had not submitted the required documentation. Delays in submitting the work report for the remaining five faculty members ranged from 101 to 282 days late.

The University System of Maryland (USM) policy on sabbatical leave states that the primary purpose of sabbatical leave is to provide faculty members an opportunity to conduct scholarly or creative work in order to increase his or her contribution to the mission of the institution, and enhance his or her standing in the related discipline or profession. According to the UMCP *Policy on Sabbatical Leave for Faculty*, sabbatical leave may be granted for either one-half of the faculty member's annual contract period at full compensation, or the full annual contract period at one-half of the normal compensation. The *Policy* also states that within three months of returning from sabbatical leave, a faculty member must file a report containing the results of the project and a detailed accounting of the activities undertaken during the leave. The report is to be addressed to the Department Chairperson with a copy to the Vice President for Academic Affairs. According to UMCP records, 175 sabbaticals were approved and taken in fiscal years 2009 and 2010.

- UMCP did not enforce compliance with its policy on collegially supported sick leave for faculty members, which allows an individual faculty member up to 25 days of collegially supported sick leave per fiscal year. Our review of the faculty leave records at three departments that employed 359 faculty members disclosed that adequate leave records had not been established to account for collegially supported sick leave. We also noted that two of the three departments had not developed written procedures and that annual reports were not prepared and submitted. UMCP policy required each department to establish written procedures and a method for recording collegially supported sick leave, and to submit an annual report of such absences. A similar situation was commented upon in our preceding audit report.

As a result of the above conditions, there is a lack of assurance regarding faculty accountability for work time and leave usage.

Recommendation 1

We recommend that UMCP establish monitoring procedures to ensure that

- a. faculty workload reports are accurately prepared and that workload requirements have been met (including the aforementioned two faculty members),**
- b. required documentation is submitted timely for the use of sabbatical leave in compliance with the aforementioned UMCP Policy, and**
- c. all departments comply with its policy on collegially supported sick leave (repeat).**

Procurement

Finding 2

UMCP lacked a written contract with a vendor it continued to use after the original contract had expired and that decision was not submitted to the Board of Regents for approval.

Analysis

UMCP did not execute a formal contract with a vendor it continued to use after the original contract (and extensions) had expired. The original contract with this vendor covered the period July 1, 2000 to June 30, 2003 with seven one-year renewal options. The contract expired on June 30, 2010; however, UMCP continued to procure these services from the vendor until a new procurement could be initiated and completed. UMCP did not execute a formal contract with the vendor for the period from July 1, 2010 through March 31, 2011 and did not submit the decision to continue using the vendor to the Board of Regents for approval. During fiscal year 2010, contract payments totaled approximately \$6 million; therefore, it would have been reasonable for UMCP to anticipate expenses for the subsequent year to exceed the monetary threshold required for Board of Regents' approval. The Board of Regents *Policy on Approval of Procurement Contracts* requires Board approval of all procurement contracts of \$5 million or more prior to their execution.

Without a formal contract, UMCP's interests were not adequately protected against price increases or nonperformance. During the period July 1, 2010 through March 31, 2011, UMCP paid this vendor approximately \$4.7 million for food distribution services to the cafeterias campus-wide. We were advised that a "bridge" agreement was executed covering the period from April 1, 2011 through September 30, 2011.

Recommendation 2

We recommend that UMCP

- a. execute formal written contracts prior to permitting vendors to provide the related services; and**
- b. disclose to the Board of Regents the arrangements made with the vendor after the original contract had expired and obtain the approval of the Board, as required.**

Contract Monitoring

Finding 3

UMCP did not adequately monitor a revenue contract resulting in uncollected revenue.

Analysis

UMCP did not bill a vendor timely for amounts totaling approximately \$125,000 for its share of the cleaning, maintenance, and utility costs related to the operation of a restaurant in the student union during fiscal years 2007 through 2009. Specifically, although such costs were to be billed annually after the applicable year's expenses were determined, the vendor was not invoiced for costs related to fiscal years 2007 and 2008 totaling approximately \$77,000 until March 2009. The fiscal year 2009 costs of approximately \$48,000 were not billed until September 2009, after the vendor had ceased operations.

On May 4, 2009, the vendor ceased operations without providing a notice of termination to UMCP. The lease, which expired on September 3, 2009, allowed UMCP to recover the rent for the entire term of the contract if the vendor abandoned the premises before the end of the term. As a result, the vendor owed additional rental payments totaling \$20,800 for the period May 4, 2009 to September 3, 2009. On December 3, 2009, UMCP referred the entire \$145,800 as a delinquent account (plus collection costs) to the Central Collection Unit to initiate collection efforts.

UMCP rents space to several vendors for restaurants in the student union. In addition to monthly rent collected, UMCP is also reimbursed for a variety of space usage fees (for example, cleaning, maintenance, and utilities) that are assessed based on the square footage occupied by each restaurant.

Recommendation 3

We recommend that UMCP establish procedures to monitor all amounts due under revenue contracts.

Information Systems Security and Control

Finding 4

Monitoring and operational controls over the Payroll and Human Resources production database need improvement.

Analysis

Monitoring and operational controls over the Payroll and Human Resources production database need improvement. Specifically, we noted the following conditions:

- Database audit logs were not reviewed on a routine basis and, when performed, the reviews were informal. That is, the review efforts, follow-up investigative activities, and the outcomes of actions taken were not documented. As a result, there was lack of assurance that any unusual security events were being identified and fully investigated. The University System of Maryland IT Security Council's *Guide for Security Event Logging*, dated November 23, 2010, requires that audit trails of events and actions related to critical applications and data must be reviewed and documented.
- An unsecure service was enabled on the database that could allow local users to run commands as a privileged user. This service was intended only to accept requests from the database server but local users on the server hosting this database could execute commands using this service without authentication. UMCP subsequently advised that this service was not needed.

Recommendation 4

We recommend that UMCP

- a. perform daily reviews of the reports of logged database security event activity, investigate any unusual events, document the reviews and investigations, and retain the information for subsequent verification; and**
- b. disable the unsecure service on the database.**

Equipment

Finding 5

UMCP did not comply with USM policy regarding accountability over certain non-capital equipment.

Analysis

UMCP's equipment policy did not meet the minimum requirements established in the *USM Policy for Capitalization and Inventory Control*. Contrary to USM policy, UMCP policy excludes computers with an acquisition value of less than \$1,000 from the definition of non-capital equipment that must be recorded, tagged, and inventoried. The value of computers purchased by UMCP with an acquisition cost less than \$1,000 could not be readily determined. According to its records, as of June 30, 2010, the value of UMCP's equipment totaled approximately \$249 million, including \$23 million in non-capital equipment. The *USM Policy* states that, computers should be included in the definition of non-capital equipment, no matter what the cost. This *Policy* further requires the non-capital equipment to be recorded, tagged, and inventoried. The same condition was commented upon in our preceding audit report.

Recommendation 5

We recommend that UMCP

- a. revise its policy on non-capital equipment to comply with the requirements of the *USM Policy for Capitalization and Inventory Control* (repeat), and**
- b. record computer equipment in the details records in accordance with the aforementioned policy (repeat).**

Audit Scope, Objectives, and Methodology

We have audited the University System of Maryland (USM) – University of Maryland College Park (UMCP) for the period beginning January 7, 2008 and ending July 5, 2010. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine UMCP's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included, but were not limited to, purchases and disbursements of UMCP's operating expenditures, student accounts receivable, cash receipts, payroll, auxiliary enterprises/services, information security over UMCP computer applications, and student financial aid. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of UMCP's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit included certain support services (such as the processing of vendor payment transmittals) provided by UMCP on a centralized basis for several other units of USM. Our audit did not include the computer operations of the UMCP Data Center as it relates to services primarily provided to other USM institutions. A separate audit of the Data Center is conducted. Our audit also did not include certain support services (such as bond financing) provided to UMCP by the USM Office. These support services are included within the scope of our audit of the USM Office. In addition, our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of UMCP's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including UMCP.

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

The response to our findings and recommendations from the USM Office, on behalf of UMCP, 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

July 11, 2011

Mr. Bruce A. Myers, CPA
Legislative Auditor
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State Office Building, Room 1202
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University of Maryland,
Baltimore

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University of Maryland,
College Park

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Bowie State University

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Towson University

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University of Maryland
Eastern Shore

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Frostburg State University

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Coppin State University

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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

RE: University System of Maryland –
University of Maryland, College Park
Period of Audit: January 7, 2008
Through July 5, 2010

Dear Mr. Myers:

I have enclosed the University System of Maryland's responses to your draft report covering the examination of the accounts and records of the University of Maryland, College Park. Our comments refer to the individual items in the report.

Sincerely,

WE Kirwan
William E. Kirwan
Chancellor

WEK:mk
Enclosures

cc: Dr. Wallace Loh, President, UMCP
Mr. Orlan M. Johnson, Chair, Board of Regents
Kevin M. O'Keefe, Chairman, MHEC
Elisabeth A. Sachs, Interim Secretary of Higher Education, MHEC
Mr. Robert Page, Comptroller, USM Office
Mr. David Mosca, Director of Internal Audits, USM Office

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Finding 1

The University of Maryland, College Park (UMCP) did not adequately monitor its faculty to ensure compliance with certain policies.

Recommendation 1

We recommend that UMCP establish monitoring procedures to ensure that

- a. faculty workload reports are accurately prepared and that workload requirements have been met (including the aforementioned two faculty members),
- b. required documentation is submitted timely for the use of sabbatical leave in compliance with the aforementioned UMCP *Policy*, and
- c. all departments comply with its policy on collegially supported sick leave (repeat).

University Response

- a. *The University acknowledges that two out of 1,300 individual records in the FY 2010 Instructional Workload Report contained one inconsistent data element. The fact remains, however, that both faculty members had proper workload exceptions approved by the Department Chair and that the Department as a whole exceeded the average course units per tenure/tenure track faculty required by University Policy. The Office responsible for reviewing the Work Load Reports has instituted a process to check for this sort of clerical error going forward.*
- b. *Auditors report that seven out of ten sampled faculty did not submit required reports within three months of returning from a sabbatical leave. An internal review by the University Office of Faculty Affairs has found an average of 10% non-compliance in this regard during the years FY 2005 to FY 2010. Although a far smaller percentage than that noted by Auditors, this condition is unacceptable and will be addressed as follows: An electronic reporting system for sabbaticals is expected to be implemented within the next six months. Specific guidelines will accompany the new system regarding sabbatical pre- and post-reporting including language to the effect that non-reported sabbatical projects will be on record, and will be a factor in granting subsequent sabbaticals that a faculty member may solicit. The University is committed to improving its monitoring and faculty feedback practices with respect to sabbatical reporting and to dealing with each instance of noncompliance promptly on a case-by-case basis.*
- c. *The University modified its PHR Leave Reporting System in October 2010 to accommodate a uniform approval process for collegially supported sick leave. Revisions to the related 1991 UMCP Policy were drafted in January*

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2011; approved by the University Legal Office in February; endorsed by the Faculty Affairs Committee of the Faculty Senate in March; and approved by the full Senate and President Loh in May 2011. The new Policy and PHR reporting system were announced to the faculty in June 2011 for immediate implementation. It is perhaps worth noting that this category of leave is rarely used.

Finding 2

UMCP lacked a written contract with a vendor it continued to use after the original contract had expired and that decision was not submitted to the Board of Regents for approval.

Recommendation 2

We recommend that UMCP

- a. execute formal written contracts prior to permitting vendors to provide the related services; and**
- b. disclose to the Board of Regents the arrangements made with the vendor after the original contract had expired and obtain the approval of the Board, as required.**

University Response

The University agrees that the subject contract expired on June 30, 2010 and was not properly extended or replaced by a new contract at that time. Although the extensions documented by e-mail were not binding agreements by contract, the vendor, acting in good faith, continued to perform per the terms of the expired agreement without altering the price structure. The University has since entered into a short-term “bridge” contract with the incumbent vendor (effective April 1, 2011), guaranteeing continued performance through September 30, 2011, with options to extend month-to-month through December 2011. This new agreement includes the same terms and conditions and the same pricing structure as had been in place when the prior agreement lapsed. At the same time, RFP # 83985-V was issued, a competitive solicitation for a new long-term food supply agreement. Proposals were received June 22, 2011 and are currently being evaluated.

With regard to the issue of Board of Regents (“BOR”) approval, the University has for many years relied upon BOR Policy VIII-3.0 USM Procurement Policies and Procedures, Section IV. Applicability, B. Exclusions, 6. which states expressly that the Procurement Policies and Procedures, including

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Section VII. C. Approval of Award Actions, do not apply to purchases for the purposes of resale. However, conflicting guidance exists under BOR Policy VIII-3.10 Policy on Approval of Procurement Contracts, which requires that “...the Board of Regents shall approve all procurement contracts of \$5 million or more prior to their execution.”

We have notified the University System of Maryland Office, acting as staff to the Board of Regents, regarding this finding and the issue of the conflicting policies. Based on discussions with staff, it is our understanding that BOR Policy VIII-3.10 will take precedence moving forward. Accordingly, the University will prepare an agenda item for BOR approval upon completion of the RFP process and document such approval prior to award of the new contract.

Finding 3

UMCP did not adequately monitor a revenue contract resulting in uncollected revenue.

Recommendation 3

We recommend that UMCP establish procedures to monitor all amounts due under revenue contracts.

University Response

The University agrees with the Recommendation. Relevant operational processes have been changed to reduce this risk going forward. Specifically, changes have been made to existing agreements as follows:

- a) Common Area Maintenance (CAM) and utility charges are being calculated by staff at The Adele Stamp Student Union in a timelier manner, and the billing is processed through the Bursar’s Office immediately.*
- b) Rent earned continues to be collected and reconciled against gross sales as documented by sales tax submitted to the State Comptroller’s Office and from signed statements by the vendors.*

In addition, changes have been made to new agreements as follows:

- a) Leases are no longer being used, and a “space use license” is required.*
- b) The space use license requires minimum lease fees and estimated CAM/Utility charges to be paid each month and reconciled to actual*

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expenses at the end of each license year. Under or overpayments are collected or credited as appropriate.

- c) *A \$35,000 performance bond is required of all new vendor agreements.*

In both existing and new agreements, if the required rent or license fee estimate is not received when due, a reminder is sent to the vendor. After five days of non-response to the notice, UMCP Dining Services initiates a Notice of Default demanding cure within the time frames specified under the agreement.

Finding 4

Monitoring and operational controls over the Payroll and Human Resources production database need improvement.

Recommendation 4

We recommend that UMCP

- a. **perform daily reviews of the reports of logged database security event activity, investigate any unusual events, document the reviews and investigations, and retain the information for subsequent verification; and**
- b. **disable the unsecure service on the database.**

University Response

The University has initiated an evaluation of Log Management Systems that will be capable of identifying, extracting and documenting investigation of events that require follow-up from the millions of log records generated each day. The evaluation process will take place during FY 2012 with the deployment planned for FY 2013. The University will identify interim measures that can be taken to reduce the risk during the evaluation period. Although mitigating factors substantially reduced risks associated with the identified “unsecure” service, it was determined that the service was not required and it has been removed.

Finding 5

UMCP did not comply with USM policy regarding accountability over certain non-capital equipment.

Recommendation 5

We recommend that UMCP

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- a. **revise its policy on non-capital equipment to comply with the requirements of the USM *Policy for Capitalization and Inventory Control* (repeat), and**
- b. **record computer equipment in the details records in accordance with the aforementioned policy (repeat).**

University Response (repeat)

Although the University defines a “computer” to be the CPU (central processing unit), we apply the \$1,000 materiality criterion to the entire “package price” of each procurement which nearly always includes both software and peripherals (monitor, key board, mouse, etc.) in addition to the CPU. Accordingly, a great many “computers” with an individual cost under \$1,000 are captured by the University inventory system.

Nevertheless, it is not practical for the University to comply with the literal wording of the cited policy. As a result, we expect to seek approval of the Board of Regents (BOR) for an exception due to materiality and/or a theft deterrent tagging alternative for all computers costing less than \$5,000. As a preliminary step, the University has been working with USM Comptroller Bob Page -- along with Towson, UMBC, and UMB – to seek BOR approval for a more practical policy with respect to all non-capital equipment.

AUDIT TEAM

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