

Audit Report

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

March 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

March 25, 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 – University of Maryland, College Park (UMCP) for the period beginning January 5, 2005 and ending January 6, 2008.

Our audit disclosed that, in certain instances, federal reimbursement requests were not submitted timely, resulting in a loss of interest income to UMCP of approximately \$200,000. We also noted that expenditures related to one research grant were not being adequately monitored resulting in the expenditures exceeding the grant award by approximately \$1 million. Consequently, UMCP used other funds (such as unrestricted funds) to cover these grant expenditures.

Our audit also disclosed internal control and record keeping deficiencies in the areas of payroll, cash receipts, student financial aid, and equipment. For example, sufficient access and security controls were not in place over UMCP's automated payroll system.

An Executive Summary of our findings can be found on page 5. 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,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

Executive Summary	5
Background Information	7
Agency Responsibilities	7
International Executive MBA Program	7
UMCP Discovered Misappropriations	8
Status of Findings From Preceding Audit Report	8
Findings and Recommendations	9
Grants	
* Finding 1 – Reimbursement Requests for Federal Funds Were Not Always Submitted Timely	9
Finding 2 – Monitoring of Certain Grant Expenditures Was Inadequate Resulting in \$1 Million Over-Expenditure	9
Cash Receipts	
Finding 3 – Documentation Was Not Always Maintained to Substantiate That Certain Collections Had Been Deposited	10
Finding 4 – Collections Totaling \$650,000 Were Temporarily Deposited With an Affiliated Foundation Rather Than Directly in the State Treasury	11
Payroll	
Finding 5 – Controls Were Not Adequate Over Payroll Processing	12
Finding 6 – UMCP Did Not Enforce its Policy Regarding Certain Faculty Leave Records	12
Student Financial Aid	
Finding 7 – Controls Were Not Adequate Over Changes to Awards	13
Equipment	
Finding 8 – Sufficient Controls Were Not Maintained Over Certain Equipment	14
Audit Scope, Objectives, and Methodology	17
Agency Response	Appendix
* Denotes item repeated in full or part from preceding audit report	

Executive Summary

**Legislative Audit Report on University System of Maryland
University of Maryland, College Park (UMCP)
March 2009**

- **Reimbursement requests for federal grant expenditures were not always submitted timely. Testing identified a \$200,000 loss of interest income relating to two grants. In addition, certain research grant expenditures were not adequately monitored resulting in an over expenditure of \$1 million.**

UMCP should submit federal fund reimbursement requests in a timely manner. UMCP should also adequately monitor grant expenditures.

- **Documentation was not maintained to substantiate that certain collections were subsequently deposited. In addition, UMCP receipts totaling \$650,000 were temporarily deposited with an affiliated foundation instead of being deposited directly in the State Treasury as required by law.**

UMCP should perform properly documented independent verifications to substantiate that collections were deposited, and should ensure that all collections are deposited directly in the State Treasury.

- **Certain control and record keeping deficiencies existed with regard to UMCP's payroll, student financial aid, and equipment.**

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

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. It offers baccalaureate, master's, and doctoral programs in the liberal arts and sciences and selected professional fields. For the Fall 2008 semester, UMCP's enrollment totaled 37,000 students. 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 2008 revenues totaled approximately \$1.4 billion, which included a State general fund appropriation of approximately \$396 million.

International Executive MBA Program

As of February 2008, UMCP had incurred costs totaling approximately \$1.1 million related to a joint international Executive MBA program that were to be paid by a foreign school of business (FSB) based in Zurich, Switzerland. However, approximately \$660,000 of these costs (for example, for professor salaries) has not been paid by the FSB because of various contract disputes related to academic requirements.

In March 2005, UMCP entered into an agreement with the FSB to establish a dual-degree Executive MBA program that would allow students from the United States and Europe to attend classes at, and be instructed by faculty from, each institution. We were advised by UMCP management that, early in the agreement period, several disputes arose regarding academic issues, including the FSB's refusal to schedule courses that were required for participation in the program. As a result of the disputes, UMCP terminated the contract on February 22, 2007. However, UMCP management advised us that it plans to continue to provide instruction to the students enrolled in the program until those students have met all of the requirements for their degrees. Based on information provided to us by UMCP, we estimated that this will result in UMCP incurring additional costs of approximately \$270,000 (beyond the \$660,000) that may not be reimbursed by the FSB. As of August 2008, the disputes with the FSB remained unresolved. UMCP legal counsel advised us that negotiations are underway with the FSB to resolve the disputed items.

UMCP Discovered Misappropriations

During the audit period, UMCP referred three instances of alleged employee misappropriation of funds to the Office of the Attorney General's Criminal Division. These instances all related to purchases made with corporate purchasing cards, and the related charges totaled \$37,168.

- An employee personally used and allowed another individual (not a University employee) to use the corporate purchasing card and travel card to make \$16,432 in assorted personal charges during the period from August 2004 through December 2005. UMCP terminated the employee in January 2006 and referred the matter to the Office of the Attorney General for investigation. The employee was subsequently charged with 23 counts of felony and misdemeanor theft and, in March 2006, pled guilty and was sentenced to 30 days in jail and three years' probation, and was required to make full restitution.
- An employee was alleged to have used the corporate purchasing card for assorted personal purchases totaling \$11,235 between December 2005 and May 2007. When confronted by UMCP management, the employee resigned on June 15, 2007. This former employee made partial restitution of approximately \$6,200 through the forfeiture of accrued leave and final wages. The case was referred to the Office of the Attorney General on July 3, 2007 and, as of September 2008, we were advised that no decision had been made regarding criminal charges.
- An employee was alleged to have used the corporate purchasing card for assorted personal purchases totaling \$9,501 between May 2007 and April 2008. The employee stated that certain transactions had previously been disputed as "unauthorized"; however, it appeared that the internal records had been altered to give the impression that certain charges had been disputed. The employee terminated employment with the University in May 2008. The case was referred to the Office of the Attorney General on June 18, 2008 and, as of September 2008, we were advised that no decision had been made regarding criminal charges.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the six findings contained in our preceding audit report dated January 30, 2006. We determined that UMCP satisfactorily addressed five of the aforementioned six findings. The remaining finding is repeated in this report.

Findings and Recommendations

Grants

Finding 1

Federal fund reimbursement requests were not always submitted timely, resulting in approximately \$200,000 in lost interest income to UMCP.

Analysis

UMCP did not always submit reimbursement requests for federal grant expenditures in a timely manner. Our initial review of expenditures totaling \$5.1 million incurred for 20 grants disclosed that, for two of the grants, reimbursement requests were not submitted timely; these expenditures totaled approximately \$1 million. Our expanded review of these two grants disclosed consistent delays. For example, our review of one grant disclosed that additional reimbursement requests for approximately \$6 million in expenditures were submitted from 3 to 13 months after the dates they could have been submitted. We were advised that the failure to submit timely reimbursement requests for these two grants was related to a new payment system that was being implemented by the federal office which provided the funding; however, this should not have prevented UMCP from submitting timely reimbursement requests. Based on our tests, we estimated that the untimely reimbursement requests for the aforementioned two grants resulted in approximately \$200,000 in lost interest income to UMCP. A similar situation was commented upon in our preceding audit report. According to its records, UMCP's federal fund expenditures totaled approximately \$263 million during fiscal year 2008.

Recommendation 1

We again recommend that, in the future, UMCP submit federal fund reimbursement requests in a timely manner.

Finding 2

UMCP did not adequately monitor expenditures related to a research grant, resulting in an over-expenditure of approximately \$1 million.

Analysis

UMCP did not adequately monitor the expenditures related to one research grant resulting in expenditures exceeding the related grant award by approximately \$1 million. Specifically, our test of five grants with awards totaling approximately \$7.8 million disclosed that, for this one grant, for which the sponsor award totaled approximately \$3.1 million, the related expenditures totaled approximately \$4.1

million, creating an over-expenditure of approximately \$1 million. Consequently, UMCP used other funds (such as unrestricted funds) to cover these grant expenditures. The over-expenditure of the grant award occurred because UMCP's grant accounting office was advised by the faculty researcher that additional funding from the sponsor was anticipated; however, this funding never materialized. UMCP could not provide any documentation that there was a potential for additional funding from the sponsor. According to its records, UMCP's revenue related to grants and sponsored programs totaled approximately \$380 million in fiscal year 2008.

Recommendation 2

We recommend that UMCP

- a. develop procedures to restrict grant expenditures to actual award amounts, and**
- b. adequately monitor grant expenditures to ensure that grant expenditures do not exceed the related grant awards.**

Cash Receipts

Finding 3

Documentation was not always maintained to substantiate that certain collections had been deposited.

Analysis

Although we were advised that UMCP had procedures in place to independently verify that collections received by the Bursar's Office were deposited, related documentation was not always maintained. Our test of collections totaling approximately \$28.8 million made over 10 days during fiscal years 2007 and 2008, disclosed that, for collections totaling \$28.4 million, there was no documentation to substantiate that recorded collections had been verified to deposit. According to UMCP records, fiscal year 2008 Bursar's Office collections, through May 2008, totaled approximately \$541 million.

Recommendation 3

We recommend that UMCP perform properly documented independent verifications to substantiate that all Bursar's Office collections were accounted for, deposited, and recorded in the State's accounting records on a timely basis.

Finding 4

UMCP initially deposited certain collections related to the School of Business, totaling approximately \$650,000, in the accounts of a foundation, in violation of State law and University System of Maryland (USM) Board of Regents policy.

Analysis

UMCP, through the Robert H. Smith School of Business (RHS) initially deposited certain collections into the accounts of the Robert H. Smith School of Business Foundation, Inc. (Foundation), a private corporation organized under the laws of Maryland. This is in violation of both the State Education Article of the Annotated Code of Maryland and the policies and procedures established by the USM Board of Regents. Our review disclosed that funds totaling approximately \$650,000 related to 2006 to 2009 fiscal year tuition payments made by some students in the RHS Executive MBA program in China were initially deposited into Foundation accounts and then transferred to the applicable UMCP State accounts. We were advised by management of RHS that this was done because the payments were wire transfers and they were easier to identify and track in the Foundation accounts than in the accounts of the State Treasurer. We were further advised that the State Treasurer had not approved this procedure. The commingling of State and Foundation funds, even for a short time, increases the susceptibility for errors or mistakes and weakens the accountability over State funds.

The Education Article, Section 12-105 of the Annotated Code of Maryland specifies that all income of the University shall be deposited in the State Treasury. In addition, the USM Board of Regents *Policy on Affiliated Foundations* requires foundation funds to be kept separate from University funds. The policy further states that University funds shall not be deposited with a foundation.

Recommendation 4

We recommend that UMCP comply with the provisions of the aforementioned State law and the Board of Regents *Policy on Affiliated Foundations*. Specifically, we recommend that funds related to the Executive MBA program be deposited directly to the State Treasury.

Payroll

Finding 5

Proper internal controls were not established over certain payroll transactions.

Analysis

UMCP did not fully use the available security features of its automated Payroll and Human Resources (PHR) system to restrict user access and to prevent unauthorized additions to the payroll. Specifically, our review disclosed that six employees could both initiate and approve transactions to add employees to the UMCP payroll. As a result, these employees could process unauthorized transactions, which may not be readily detected. According to UMCP records, fiscal year 2008 payroll expenditures totaled approximately \$876 million.

Recommendation 5

We recommend that UMCP fully utilize the security features of PHR by ensuring that the same employee cannot both initiate and approve transactions. We advised UMCP on accomplishing the necessary separation of duties using existing personnel.

Finding 6

UMCP did not enforce its policy regarding certain faculty leave records.

Analysis

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. The policy requires each Department to develop written procedures to be approved by the Vice President for Academic Affairs. The policy also requires each Department to establish a method of record keeping, and submit an annual report of all collegially supported absences. Collegially supported sick leave is defined as colleague substitution for instructional faculty who are absent due to short-term illness or injury, thereby protecting the interest of the students by ensuring the supply of qualified substitution.

However, our review of the faculty leave records at three Departments disclosed that adequate leave records had not been established to account for collegially supported sick leave, that written procedures had not been established, and that

annual reports were not prepared and submitted. Consequently, the extent of collegially supported sick leave at these Departments was unknown, and there was a lack of assurance that faculty use of this leave was in accordance with UMCP policy.

According to UMCP records, there were 367 faculty members in the three Departments reviewed, and approximately 3,400 campus-wide, during the spring 2008 semester.

Recommendation 6

We recommend that UMCP ensure compliance with its policy on collegially supported sick leave by all Departments.

Student Financial Aid

Finding 7

Procedures and controls over changes to student financial aid awards were inadequate.

Analysis

Procedures and controls over the review and approval of changes (such as, increases in awards) made to student financial aid awards were not adequate. Specifically, the employee responsible for reviewing and approving the automated report that lists the changes made to the student financial aid awards also had the ability to process the related changes. Consequently, there was a lack of assurance as to the propriety of changes made. Financial aid awarded during fiscal year 2008 totaled \$339 million.

Recommendation 7

We recommend that UMCP establish adequate procedures and controls over changes to student financial aid. Specifically, we recommend that the employee reviewing the report for propriety not have the capability to process the related changes. We advised UMCP on accomplishing the necessary separation of duties using existing personnel.

Equipment

Finding 8

Sufficient controls were not maintained over certain non-capital and sensitive equipment.

Analysis

UMCP did not adequately maintain equipment records for non-capital equipment and did not have a sufficient policy for sensitive equipment. According to its records, the value of UMCP's equipment totaled approximately \$247.2 million, including \$24.6 million in non-capital equipment, as of June 30, 2008.

Specifically, we noted the following conditions:

- UMCP did not establish procedures to ensure that non-capital equipment purchased with corporate purchasing cards was properly recorded in the detail equipment records. Our test of eight non-capital equipment items totaling \$13,000 purchased with a corporate purchasing card disclosed that five of the items totaling \$7,750 were not recorded in the detail equipment records. Each of these items exceeded the \$1,000 recordation cost established by the UMCP policy on non-capital equipment. This policy defines non-capital equipment that must be recorded, tagged, and inventoried every three years as having an acquisition cost greater than \$1,000 but less than \$5,000.
- UMCP's sensitive equipment policy did not meet the minimum requirements established in the USM *Policy for Capitalization and Inventory Control*. Specifically, the 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. We could not readily determine the value of computers purchased by UMCP with an acquisition cost of less than \$1,000. 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.

As a result of these control deficiencies, there is a lack of assurance that equipment was properly accounted for and controlled.

Recommendation 8

We recommend that UMCP comply with the USM *Policy for Capitalization and Inventory Control*. Specifically, we recommend that UMCP

- a. establish procedures to identify and properly record all non-capital equipment purchased with the corporate purchasing cards,**
- b. revise its policy on sensitive equipment to comply with the requirements of the USM *Policy for Capitalization and Inventory Control*, and**
- c. record computer equipment in the detail records in accordance with the aforementioned policy.**

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 5, 2005 and ending January 6, 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 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. 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 UMCP's computer operations, which are addressed in a separate audit of UMCP's Data Center. 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.

Our audit scope was limited with respect to UMCP'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 of UMCP's 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.

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

March 10, 2009

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

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University of Maryland,
Baltimore

1856
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

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

Re: Audit of University System of Maryland -
University of Maryland, College Park
Audit Period: January 5, 2005 through
January 6, 2008

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 System of Maryland - University of Maryland, College Park. Our comments refer to the individual items contained in the report.

Sincerely,

WE Kirwan
William E. Kirwan
Chancellor

WEK:mpk

Enclosure

cc: Dr. C. D. Mote, Jr., President, UMCP
Mr. Clifford M. Kendall, Chair, Board of Regents, USM
Mr. Robert Page, Comptroller, USM
Mr. Kevin M. O'Keefe, Chair, MHEC
Dr. James E. Lyons, Sr., Secretary of Higher Education, MHEC
Ms. Julie Phelps, Asst. Vice President for Administrative Affairs, UMCP
Mr. David Mosca

**UNIVERSITY SYSTEM OF MARYLAND –
UNIVERSITY OF MARYLAND, COLLEGE PARK
RESPONSE TO LEGISLATIVE AUDIT REPORT
FOR THE PERIOD JANUARY 5, 2005 – JANUARY 6, 2008**

Findings and Recommendations

Grants

Finding 1

Federal fund reimbursement requests were not always submitted timely, resulting in approximately \$200,000 in lost interest income to UMCP.

Recommendation 1

We again recommend that, in the future, UMCP submit federal fund reimbursement requests in a timely manner.

University Response:

The University disagrees that problems caused by a new payment system required by a particular federal agency “should not have prevented UMCP from submitting timely reimbursement requests.” Rather, the instances in which two grant funds were not drawn in a timely manner were due to a sponsor’s condition beyond our control. The federal agency in question requires extensive electronic documentation to support draws prior to authorizing payment. During the time period under audit, the sponsor was implementing a new electronic system which failed repeatedly, thereby causing the delays in our submissions. This was a national issue, not a condition specific to UMCP, and not the fault of UMCP. There is nothing to correct in UMCP’s practice of submitting reimbursement requests.¹

¹ **Auditor’s Comment:** The University’s response acknowledges that grant funds for these two grants were not drawn timely and it has provided documentation to support that these untimely draws were due, at least in part, to the sponsor’s electronic system failures. The University has been unable to document the extent to which this system problem caused the delays commented upon in the report.

**UNIVERSITY SYSTEM OF MARYLAND –
UNIVERSITY OF MARYLAND, COLLEGE PARK
RESPONSE TO LEGISLATIVE AUDIT REPORT
FOR THE PERIOD JANUARY 5, 2005 – JANUARY 6, 2008**

Finding 2

UMCP did not adequately monitor expenditures related to a research grant, resulting in an over-expenditure of approximately \$1 million.

Recommendation 2

We recommend that UMCP

- a. develop procedures to restrict grant expenditures to actual award amounts, and**
- b. adequately monitor grant expenditures to ensure that grant expenditures do not exceed the related grant awards.**

University Response:

The University disagrees with the finding and analysis of this issue. UMCP has an excellent record of managing Contract and Grant billings and receivables and monitoring expenditures including those in question here. As of June 30, 2008, account receivable balances over 120 days beyond the billing date amounted to less than 1% of related expenditures for the year.

The project in question was a multi-year grant funded by NASA beginning in January 2004. Each year, continuation funding was received but always delayed. Throughout the project, deficit reports were monitored by the University Contract and Grant office including regular communication with the Principal Investigator. It is not our practice to shut down research projects and lay off faculty if continuation funding is expected. In this instance, NASA was less than forthcoming despite repeated efforts to gain an understanding of whether funding would be continued. It is also important to note that the true deficit balance absorbed by the University was \$700,000 (out of \$380,000,000 total sponsored program revenue for the year). The remaining \$300,000 resulted from indirect cost recovery – i.e., a revenue forfeiture and not an “over-expenditure.”²

² **Auditor’s Comment:** The University’s response indicates disagreement with the finding and analysis of this issue. However, its response also acknowledges that a deficit of \$700,000 was absorbed by the University and that it also had to forfeit \$300,000 in revenue. Since the revenue was not available for overhead costs incurred, it was included with the \$700,000 deficit and reported in the analysis as an over-expenditure of \$1 million.

**UNIVERSITY SYSTEM OF MARYLAND –
UNIVERSITY OF MARYLAND, COLLEGE PARK
RESPONSE TO LEGISLATIVE AUDIT REPORT
FOR THE PERIOD JANUARY 5, 2005 – JANUARY 6, 2008**

Cash Receipts

Finding 3

Documentation was not always maintained to substantiate that certain collections had been deposited.

Recommendation 3

We recommend that UMCP perform properly documented independent verifications to substantiate that all Bursar’s Office collections were accounted for, deposited, and recorded in the State’s accounting records on a timely basis.

University Response:

As noted above, the University informed the auditor that the following independent verification steps are performed to ensure proper recording of deposits:

- The Office of the Bursar compares the daily deposit log to the on-line Bank of America System to determine that deposits are correctly posted to the State bank account.
- The Office of the Bursar also compares the daily deposit log to daily Financial Reporting System (FRS) transaction reports to ensure that deposits are properly posted to University accounting records.
- A separate UMCP System Control Office performs a documented reconciliation of daily FRS transactions to the State accounting system.

Effective 7/1/08, the Office of the Bursar added a step to this process by requiring the employees performing the first two steps above to initial and date the daily FRS transaction reports to document verification of deposit records to the State bank account and to the University accounting system.

Finding 4

UMCP initially deposited certain collections related to the School of Business, totaling approximately \$650,000, in the accounts of a foundation, in violation of State law and University System of Maryland (USM) Board of Regents policy.

Recommendation 4

We recommend that UMCP comply with the provisions of the aforementioned State law and the Board of Regents *Policy on Affiliated Foundations*. Specifically, we

**UNIVERSITY SYSTEM OF MARYLAND –
UNIVERSITY OF MARYLAND, COLLEGE PARK
RESPONSE TO LEGISLATIVE AUDIT REPORT
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recommend that funds related to the Executive MBA program be deposited directly to the State Treasury.

University Response:

The University agrees that the School of Business held University funds in its foundation account for a brief period of time in violation of both University and State requirements. The School has been instructed to provide students in China with revised wire transfer instructions.

Payroll

Finding 5

Proper internal controls were not established over certain payroll transactions.

Recommendation 5

We recommend that UMCP fully utilize the security features of PHR by ensuring that the same employee cannot both initiate and approve transactions. We advised UMCP on accomplishing the necessary separation of duties using existing personnel.

University Response:

The University agrees that certain members of the central PHR Service Center initiated and “approved” 12 transactions affecting pay during the three-year audit period. All 12 actions were fully supported by unit level documentation, and were identified clearly in the on-line audit trail available to the customer unit. In addition, the resulting payroll was subsequently approved by the customer unit prior to being released to the State Central Payroll Bureau.

Nevertheless, security allowing the six PHR employees to both initiate and approve the same transaction was removed when identified by the auditor. Transactions created during customer services activity by PHR Administrators are now released to the units for approval. If a unit approver is unavailable, a PHR Customer Service employee who did not create the transaction will approve it after review of appropriate supporting documentation.

**UNIVERSITY SYSTEM OF MARYLAND –
UNIVERSITY OF MARYLAND, COLLEGE PARK
RESPONSE TO LEGISLATIVE AUDIT REPORT
FOR THE PERIOD JANUARY 5, 2005 – JANUARY 6, 2008**

Finding 6

UMCP did not enforce its policy regarding certain faculty leave records.

Recommendation 6

We recommend that UMCP ensure compliance with its policy on collegially supported sick leave by all Departments.

University Response:

The University agrees to inform Colleges, Deans, and Academic Departments regarding their responsibility to manage Collegial Supported Sick Leave in accordance with UMCP Policies—including appropriate record keeping and submission of an annual report to the Vice President for Academic Affairs.

Student Financial Aid

Finding 7

Procedures and controls over changes to student financial aid awards were inadequate.

Recommendation 7

We recommend that UMCP establish adequate procedures and controls over changes to student financial aid. Specifically, we recommend that the employee reviewing the report for propriety not have the capability to process the related changes. We advised UMCP on accomplishing the necessary separation of duties using existing personnel.

University Response:

The University agrees that one employee who had limited update access to the Student Award Management System (for athletic aid only) was responsible for overall review of the Award Monitor Report. Accordingly, review responsibility has been assigned to another employee with no access to update awards.

**UNIVERSITY SYSTEM OF MARYLAND –
UNIVERSITY OF MARYLAND, COLLEGE PARK
RESPONSE TO LEGISLATIVE AUDIT REPORT
FOR THE PERIOD JANUARY 5, 2005 – JANUARY 6, 2008**

Equipment

Finding 8

Sufficient controls were not maintained over certain non-capital and sensitive equipment.

Recommendation 8

We recommend that UMCP comply with the *USM Policy for Capitalization and Inventory Control*. Specifically, we recommend that UMCP establish procedures to identify and properly record all non-capital equipment purchased with the corporate purchasing cards,

- a. revise its policy on sensitive equipment to comply with the requirements of the *USM Policy for Capitalization and Inventory Control*, and**
- b. record computer equipment in the detail records in accordance with the aforementioned policy.**

University Response:

First Bullet Point

We agree with the finding and have recorded the five items cited in the sensitive equipment inventory records of the University. Currently, the Inventory Coordinator Training manual includes a section on the recording of new equipment acquired by the Corporate Purchasing Card. We will add a similar procedure to our Corporate Purchasing Card Training sessions and manuals. In addition, we will develop a monthly report that lists sensitive equipment sub-code acquisitions made with the Corporate Purchasing Card. Our Inventory Control office will review this monthly report to ensure that all items have been properly recorded in our inventory system.

Second Bullet Point

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 for an exception due to materiality and/or a “theft deterrent” tagging alternative for all “computers.”

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