

Audit Report

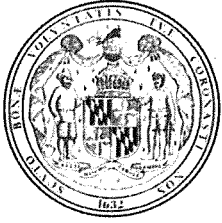
University System of Maryland Office

January 2012



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

January 17, 2012

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the University System of Maryland Office for the period beginning February 1, 2008 and ending March 30, 2011. The Office develops system-wide policies and procedures; monitors academic, financial, and administrative performance; provides system-wide financing through the issuance of bonds; and provides management information for planning and decision-making to the 12 institutions and 2 regional higher education centers of the University System of Maryland.

Our audit disclosed that the Office did not ensure compliance with all requirements related to its endowment funds which were valued at approximately \$198 million at June 30, 2011. For example, investment policies had not been adopted by the System's Board of Regents, as required by the Annotated Code of Maryland.

Our audit also disclosed that controls over the disbursement of bond revenues for capital project expenditures totaling approximately \$300 million could be strengthened, in part, by ensuring the disbursements were approved by appropriate institution employees. Furthermore, we noted that controls over the Maryland Research and Education Network management servers and network devices did not adequately secure these computer resources.

The Office's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by the Office.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers".

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 the University System of Maryland Office January 2012

- **Certain requirements related to the Endowment Fund were not complied with. Specifically, investment policies had not been adopted by the Board of Regents, and the Office did not ensure that institutions receiving administrative cost distributions from the Fund submitted required annual reports.**

The Office should adopt investment policies and ensure that institutions provide the required annual reports.

- **Controls were inadequate over disbursements for capital project expenditures funded by bond proceeds. The Office did not sufficiently validate the propriety of capital project expenditure requests from USM institutions.**

The Office should verify the propriety of disbursement requests.

- **Controls on critical Maryland Research and Education Network management servers were not sufficient to protect the servers. For example, a host-based firewall allowed Internet traffic to the server over virtually all ports and password controls were inadequate.**

The Office should configure the firewall to appropriately restrict access and establish appropriate password controls.

- **The internal network was not properly secured. For example, 40 publicly and widely accessible servers were located on the Office's internal network rather than being placed in a neutral network zone.**

The Office should ensure its internal network is secured including relocating all publicly and widely accessible servers to a separate neutral network zone.

- **Sensitive personal and financial information for thousands of prospective USM students was unnecessarily stored on a publicly accessible server.**

The Office should remove sensitive personal and financial data from the publicly accessible server or encrypt the data and store it on an internal server.

Background Information

Agency Responsibilities

The University System of Maryland Office develops system-wide policies and procedures; monitors academic, financial, and administrative performance; provides system-wide financing through the issuance of bonds; and provides management information for planning and decision-making to the 12 institutions and 2 regional higher education centers of the University System of Maryland. The Office oversees the development and management of the University System of Maryland's two regional higher education centers: the Universities at Shady Grove and the University System of Maryland at Hagerstown. The Office also serves as the staff to the Board of Regents.

Since the restructuring of the University of Maryland Biotechnology Institute in July 2010, two research centers are overseen by the Office: the Institute for Bioscience and Biotechnology Research, and the Institute for Marine and Environmental Technology. In addition, the Office serves as the host institution for an operating unit that supports the Maryland Research and Education Network (MDREN). MDREN provides statewide telecommunications, such as Internet access and interactive video network, to all System institutions.

According to the Office's records, total Office expenditures were approximately \$27.2 million during fiscal year 2011.

Audit of the System's Basic Financial Statements

An independent accounting firm is engaged by the Office for the purpose of expressing an opinion on the System's financial statements each year. In the related audit reports for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, the firm stated that the basic financial statements presented fairly, in all material respects, the financial position of the System, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Status of Findings From Preceding Audit Report

We reviewed the status of the eight findings included in our preceding audit report dated January 7, 2009. We determined that the Office satisfactorily addressed five of these findings. The remaining three findings are repeated in this report.

Findings and Recommendations

Endowment Funds

Finding 1

Certain legal requirements and Board policies were not complied with.

Analysis

Certain legal requirements and Board policies related to endowment funds were not complied with. On July 1, 2005, the University System of Maryland (USM) entered into an agreement with the University of Maryland Foundation (UMF) and, in accordance with the System's Board of Regents' approval, authorized the Office to transfer endowment funds to the UMF to be invested on its behalf. The funds transferred represent monies in an endowment of the USM known as the Common Trust Fund (CTF). The CTF generally comprises restricted funds received from donors by the Office and various USM institutions. Under the agreement, which was deemed by legal counsel to the General Assembly to be permissible under State law, assets of the CTF and the UMF are commingled and are invested. Earnings or losses are allocated based on the proportion of assets invested. The agreement was for a five-year term with continuous, automatic two-year renewal periods. According to Office records, the CTF was valued at approximately \$198 million as of June 30, 2011. Our review disclosed the following conditions:

- Investment policies have not been adopted by the Board of Regents as required by the investment agreement and by law. The aforementioned investment agreement provides that the UMF shall invest the CTF in accordance with the investment policies adopted by UMF's Investment Committee and the Board of Regents. We were advised by Office management that, as of July 20, 2011, investment policies have been drafted; however, the final policies have not been approved by UMF or the Board. State law enacted July 1, 2004, exempted the Office from certain requirements related to the procurement of services for managers of the investment of endowment assets, subject to policies adopted by the Board of Regents. Such policies are needed so that the Board's investment strategies and goals, including appropriate risks and safeguards, are clearly defined and implemented. A similar condition was commented upon in our proceeding audit.
- The Board of Regents' *Policy on Endowment Fund Spending Rule* requires all institutions receiving administrative cost distributions, which reimburse the institutions for the costs of administering endowments, to provide the Office with annual reports of sources of funds as well as expenses from fundraising

operations. These reports, which allow the Office to monitor how institutions are spending administrative fees and the cost of an institution's fundraising operations, had not been submitted for fiscal years 2008, 2009, and 2010 by any of the institutions receiving these distributions. According to Office records, six institutions received administrative cost reimbursements from endowment funds totaling approximately \$1.7 million during fiscal year 2010.

Recommendation 1

We recommend that the Office

- a. adopt investment policies as required by the investment agreement and by State law (repeat), and**
- b. ensure institutions provide annual reports as required by the Board of Regents' Policy.**

Revenue and General Obligation Bonds

Finding 2

Controls were inadequate over disbursements for capital project expenditures that were funded by bond proceeds.

Analysis

Controls were inadequate over disbursements for capital project expenditures that were funded by bond proceeds. Specifically, although the Office relies on written approval from each of the USM institutions to validate the propriety of capital expenditure requests received, adequate measures were not taken to ensure the propriety of these approvals. In this regard, the Office did not maintain signature cards of institution employees authorized to approve these disbursements nor did the Office review vendors being paid for reasonableness before making disbursements. Our test of 20 such disbursements totaling approximately \$41.6 million disclosed that for seven disbursements totaling approximately \$12.1 million, the Office was unable to identify the signature of the institution employee approving the disbursement request. As a result of our inquiries, the Office was able to subsequently confirm that the disbursements were proper. However, the Office should have questioned the institutions and confirmed these signatures prior to processing the capital disbursements.

The Office is responsible for the disbursement of proceeds of general obligation and revenue bonds for the payment of capital project expenditures on behalf of the USM institutions. According to the Office's records, during fiscal year 2011, the Office disbursed bond proceeds totaling approximately \$175 million of general obligation bonds and approximately \$164 million of revenue bonds for capital project expenditures.

Recommendation 2

We recommend that the Office verify the validity of the disbursement requests by maintaining a list of institution employees authorized to approve such disbursements and review vendors for reasonableness prior to processing capital project expenditures.

Maryland Research and Education Network (MDREN)

Background

The Office supports the Maryland Research and Education Network (MDREN). MDREN is a telecommunications network with connections to USM institutions, other Maryland public and private colleges, universities, and community colleges. MDREN provides Internet access, connections for research activity, access to USM institutions' online library systems, access to the State's Financial Management Information System, and connectivity for distance learning, where students at the various System institutions take classes at another institution. MDREN network connections also transfer class-related video, audio, and data content. MDREN includes high-speed communication lines, fiber-optic transport devices, switches, routers, and supporting management servers located on the premises of the various connected USM institutions and education related entities.

Finding 3

Controls on critical MDREN management servers were not sufficient to protect the servers.

Analysis

The MDREN includes five similarly configured management servers which are used for controlling network operations. Our examination of one of these servers disclosed that security controls were not sufficient to protect the server. Specifically, we noted the following conditions:

- A host-based firewall allowed Internet traffic to the server over virtually all ports. In addition, several publicly accessible services were enabled on this server. Access to critical management servers should be allowed only over required ports and publicly accessible services should not be allowed on any critical management servers.
- Password controls on this server did not comply with the *USM Guidelines in Response to the State's IT Security Policy* dated August 2011. Specifically, we noted that users could log onto the server without a password and that a minimum password length parameter was not defined.

- Since April 2009, the server's operating system had not been supported for security updates and patches. This left the server increasingly vulnerable to attack.

Recommendation 3

We recommend that, for all MDREN management servers, the Office

- a. remove unnecessary public services from the management servers and configure the host based firewall to appropriately restrict access to the servers,**
- b. enforce parameters that require that all server accounts use a password which is at least eight characters long in accordance with the *USM Guidelines in Response to the State's IT Security Policy*, and**
- c. ensure the servers' operating system software includes all of the latest security updates and patches.**

Finding 4

The Office's internal network was not properly secured.

Analysis

The Office's internal network was not properly secured. Specifically, we noted the following conditions:

- Forty publicly and widely accessible servers were located on the Office's internal network rather than being placed in a neutral network zone. Publicly and widely accessible servers should be placed in a neutral network zone, separate from the internal network, to enhance protection of sensitive data and systems on the internal network.
- Network account and password settings were inadequate to protect the internal network. Specifically, there were no requirements for a minimum password length or password complexity. In addition, users were not required to change their passwords and there were no account lockout setting established which would lock out an account after a specific number of failed logon attempts. These account and password settings did not comply with the *USM Guidelines in Response to the State's IT Security Policy* dated August 2011.

Recommendation 4

We recommend that the Office

- a. relocate all publicly and widely accessible servers to a separate neutral network zone to limit security exposures to the internal network segment, and**

- b. enforce network account and password controls that are in accordance with the *USM Guidelines in Response to the State's IT Security Policy*.**

Finding 5

The Office's internal computer network was not adequately protected from security risks related to wireless connections.

Analysis

The Office's internal computer network was not adequately protected from security risks related to wireless connections. Specifically, connections made through the employee dedicated wireless access points within the Office's headquarters building could, at a network level, access the entire internal network without user authentication. In addition, all traffic between users and the employee dedicated access points was not encrypted. As a result, anyone in the immediate vicinity of the Office's headquarters building using a wireless network access device could gain network level access to the internal network or intercept and read wireless network traffic associated with the employee dedicated access points. Similar conditions were commented upon in our preceding audit report.

Recommendation 5

We recommend that the Office require that the employee dedicated wireless connections be subject to appropriate user authentication and encryption (repeat).

Finding 6

Sensitive personal and financial information for prospective USM students was unnecessarily stored on a publicly accessible server.

Analysis

Sensitive personal and financial information for prospective USM students was unnecessarily stored on a publicly accessible web server. The Office operated a web server and website, used by prospective students applying to several USM institutions. We determined that student names, social security numbers, and in some cases, credit card numbers were stored in plain text on the web server. We estimate that over 8,000 records existed on the server which contained the aforementioned personally identifiable information. Such information could be accessible to unauthorized individuals if the related server were compromised. A similar condition was commented upon in our preceding audit report.

This sensitive personal and financial information residing on the server is commonly sought for use in identity theft. Accordingly, appropriate security controls need to exist to ensure that this information is safeguarded and is not improperly disclosed. The *USM Guidelines in Response to the State's IT Security Policy* stipulate that Institutions must properly protect nonpublic information by either deleting unneeded nonpublic information, encrypting nonpublic information, or using other equally secure safeguards.

Recommendation 6

We recommend that the Office remove the described sensitive personal and financial data from the publicly accessible server. If the data must be retained, it should be stored on an internal server that is not publicly accessible, and encrypted (repeat).

Payroll and Personnel

Finding 7

The Office did not have adequate accountability and control over payroll and personnel functions.

Analysis

The Office had not established adequate accountability and control over payroll and personnel functions. According to Office records, payroll expenditures totaled approximately \$13 million during fiscal year 2011. Our review disclosed the following conditions:

- Electronic employee timesheets were not always electronically signed by the employee or electronically approved by supervisory personnel. Specifically, our review of all timesheets (111 employees) for three pay periods in fiscal year 2011 disclosed that 34 timesheets were not signed by the employee and 63 were not approved by the supervisor. In addition, 26 timesheets were not signed by either the employee or the supervisor. Consequently, there is a lack of assurance that work time reported was proper.
- The Office had not established policies and procedures governing employees participating in the telework program to effectively monitor work performance and ensure remote work place safety conditions. Specifically, during the course of our audit we noted employees were allowed to telework on a weekly basis; however, this participation was neither documented nor adequately monitored by management. Although formal telework policies and procedures had not been developed, we were advised by Office management that employees are permitted to telework after approval has

been obtained from the employee's supervisor. However, this approval was not formally documented and Office management could not tell us how many employees teleworked, how often teleworking occurred or what duties the employees were expected to perform on these days.

Although the Office is not required to follow the State's personnel policies, the Department of Budget Management (DBM) developed an extensive *Teleworking Policy* for state agencies to follow which requires that a teleworking agreement, a remote work site self-certification, and daily telework plans outlining the work to be accomplished each day an employee teleworks, be prepared.

Recommendation 7

We recommend the Office

- a. ensure that timesheets are signed by employees and approved by supervisors before payroll is processed; and**
- b. develop, and monitor compliance with, a telework policy to help ensure sufficient employee work performance and remote work place safety.**

Audit Scope, Objectives, and Methodology

We have audited the University System of Maryland Office for the period beginning February 1, 2008 and ending March 30, 2011. 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 the Office's 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 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. The areas addressed by the audit included cash receipts, payroll, endowment funds, and bond revenues. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Office'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 support services (that is, endowment accounting, bond financing) provided by the Office on a centralized basis for other units of the University System of Maryland. Our audit did not include certain support services provided to the Office by the University of Maryland, College Park. These support services (such as purchasing, processing vendor payments) are included within the scope of our audits of the University of Maryland, College Park. Our audit also did not include an evaluation of internal controls or an assessment of the Office's compliance with federal laws and regulations pertaining to federal financial assistance programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the Office.

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

The Office'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 the Office regarding the results of our review of its response.

APPENDIX



OFFICE OF THE CHANCELLOR

January 13, 2011

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

1807
University of Maryland,
Baltimore

1856
University of Maryland,
College Park

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Bowie State University

1866
Towson University

1886
University of Maryland
Eastern Shore

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Frostburg State University

1900
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
Period of Audit: February 1, 2008
Through March 31, 2011

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 Office. Our comments refer to the individual items in the report.

Sincerely,

William E. Kirwan
Chancellor

WEK:mk
Enclosures

cc: Mr. Orlan M. Johnson, Chair, Board of Regents
Anwer Hasan, Chairman, MHEC
Danette Howard, Interim Secretary of Higher Education, MHEC
Mr. Robert Page, Comptroller, USM Office
Mr. David Mosca, Director of Internal Audit, USM Office

**University System of Maryland Office
Responses to Findings in the Report of the Office of Legislative Audits
February 1, 2008 to March 31, 2011**

Findings and Recommendations

Endowment Funds

Finding 1

Certain legal requirements and Board policies were not complied with.

Recommendation 1

We recommend that the Office

- a. adopt investment policies as required by the investment agreement and by State law (repeat), and**
- b. ensure institutions provide annual reports as required by the Board of Regents' *Policy*.**

University System of Maryland Office response

The System Office agrees with the recommendation. In September 2011, the Board of Regents approved an investment policy. The System Office will ensure that the Report of Sources of Funds for Fundraising is collected as required by Board of Regents Policy.

Revenue and General Obligation Bonds

Finding 2

Controls were inadequate over disbursements for capital project expenditures that were funded by bond proceeds.

Recommendation 2

We recommend that the Office verify the validity of the disbursement requests by maintaining a list of institution employees authorized to approve such disbursements and review vendors for reasonableness prior to processing capital project expenditures.

University System of Maryland Office response

The System Office agrees with the recommendation.

The System Office has, as a result of the recommendation, developed and will maintain a list which will bear the sample signatures of each person authorized to sign off on capital expenditure request at each institution. This card will be used to ensure we have valid and verifiable signatures on each transmittal coversheet or memo for capital expenditures.

**University System of Maryland Office
Responses to Findings in the Report of the Office of Legislative Audits
February 1, 2008 to March 31, 2011**

The System Office will review vendor invoices for reasonableness prior to processing of capital project expenditures.

Maryland Research and Education Network (MDREN)

Finding 3

Controls on critical MDREN management servers were not sufficient to protect the servers.

Recommendation 3

We recommend that, for all MDREN management servers, the Office

- a. remove unnecessary public services from the management servers and configure the host based firewall to appropriately restrict access to the servers,**
- b. enforce parameters that require that all server accounts use a password which is at least eight characters long in accordance with the *USM Guidelines in Response to the State's IT Security Policy*, and**
- c. ensure the servers' operating system software includes all of the latest security updates and patches.**

University System of Maryland Office response

We agree with the auditor's recommendations. The changes to the password enforcement parameters have been completed and are in accordance with the *USM Guidelines in Response to the State's IT Security Policy*. The operating system upgrades to include all of the latest security updates and patches will be completed no later than June 30, 2012.

We have begun the process to remove unnecessary public services from the management servers and configure the host-based firewall to appropriately restrict access to the servers, but it will take some time to complete. We're working on completing this enhancement as soon as possible.

**University System of Maryland Office
Responses to Findings in the Report of the Office of Legislative Audits
February 1, 2008 to March 31, 2011**

Finding 4

The Office's internal network was not properly secured.

Recommendation 4

We recommend that the Office

- a. relocate all publicly and widely accessible servers to a separate neutral network zone to limit security exposures to the internal network segment, and**
- b. enforce network account and password controls that are in accordance with the *USM Guidelines in Response to the State's IT Security Policy*.**

University System of Maryland Office response

USM Office IT has completed implementing network account and password controls that are in accordance with the *USM Guidelines in Response to the State's IT Security Policy*.

USM Office IT is also enhancing the network architecture to create a neutral network zone for servers that are accessible by the public, but will remain logically separate from the private servers on the internal network. We have begun working on this enhancement and will complete it as soon as possible.

Finding 5

The Office's internal computer network was not adequately protected from security risks related to wireless connections.

Recommendation 5

We recommend that the Office require that the employee dedicated wireless connections be subject to appropriate user authentication and encryption (repeat).

University System of Maryland Office response

USM Office IT has completed enhancing security controls for the employee dedicated wireless network to both encrypt all traffic and to require user authentication.

**University System of Maryland Office
Responses to Findings in the Report of the Office of Legislative Audits
February 1, 2008 to March 31, 2011**

Finding 6

Sensitive personal and financial information for prospective USM students was unnecessarily stored on a publicly accessible server.

Recommendation 6

We recommend that the Office remove the described sensitive personal and financial data from the publicly accessible server. If the data must be retained, it should be stored on an internal server that is not publicly accessible, and encrypted (repeat).

University System of Maryland Office response

USM Office IT has completed removing historic sensitive personal and financial data on the publicly accessible server and has archived these data to CD-ROM. In addition, processes are in place to store such data at a level not accessible by the public, move these data to an internal network drive daily, and to archive the data to CD-ROM storage on a monthly basis.

Payroll and Personnel

Finding 7

The Office did not have adequate accountability and control over payroll and personnel functions.

Recommendation 7

We recommend the Office

- a. ensure that timesheets are signed by employees and approved by supervisors before payroll is processed; and**
- b. develop, and monitor compliance with, a telework policy to help ensure sufficient employee work performance and remote work place safety.**

University System of Maryland Office response

Telework Policy

We agree that the USMO should promptly adopt a telework policy, and have drafted a policy that is currently under review by the Office's management and will be presented to the Chancellor for approval before the end of January 2012.

**University System of Maryland Office
Responses to Findings in the Report of the Office of Legislative Audits
February 1, 2008 to March 31, 2011**

Timesheet Completion and Approval

The USMO takes the matter of employee timesheet completion and signature and supervisor timesheet approval quite seriously. We regularly provide training, advice and reminders to USMO employees and supervisors regarding the need to complete timesheets correctly and on a timely basis, and we periodically monitor timekeeping practices.

Among the measures now in place are:

1. Regular Prompts to Sign Timesheets. At the end of each pay period, the USMO Human Resources unit sends all USMO employees an automated biweekly message to remind employees that they must fill out and sign their timesheets and that their supervisors must review and approve them.
2. Monitoring Timesheets. The USMO regularly monitors timesheet reporting to identify missed timesheet signatures and approvals, substantial postponed usage of leave and other timesheet anomalies. Individual employees are then counseled regarding any concerns arising from this monitoring process. In the future, we will also report recurring problems with timesheet completion to the employee's supervisor.

To track such compliance, we recently conducted a review of time sheet completion for three random pay periods between August and December 2011 and compared it with the similar three-pay period analysis conducted of Legislative Auditors for FY 2011. The results were as follows:

	No Employee Sign-off	No Supervisor Approval	Both Sign-off and Approval Missing
FY 2011 Audit	34	63	26
FY 2012 Review	3	22	1

Accordingly, we believe that, with the measures now in place, timesheet completion compliance has improved considerably.

We note finally that the USMO has no ability to require that timesheets be signed and approved before the bi-weekly payroll is processed. Under the standing operating procedures and schedules established by the State's Central Payroll Bureau and practiced for decades, the USMO must approve its bi-weekly pay calculations at least two days before the end of each pay period (i.e., the payroll must be approved by Thursday for each pay period ending on Saturday). Any variations between the approved payroll and the time recorded by the employee at the end of the pay period are readily accounted for in a later adjustment process.

AUDIT TEAM

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