

Audit Report

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

June 2019



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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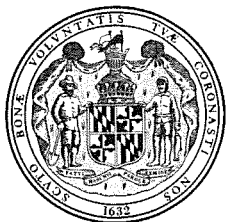
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

June 14, 2019

Senator Craig J. Zucker, Senate Chair, Joint Audit Committee
Delegate Shelly L. Hettleman, House Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland Center for Environmental Science (UMCES) for the period beginning November 12, 2014 and ending December 16, 2018. UMCES engages in environmental research, public service, and educational activities at four regional laboratories. UMCES also includes the Sea Grant College, which coordinates the research efforts of USM that are associated with the United States Department of Commerce’s National Oceanic and Atmospheric Administration.

Our audit disclosed that UMCES did not adequately pursue delinquent grant receivables as required by State regulations. We also noted that certain grant amounts due were written off without required approval from the State’s Central Collection Unit. In particular, a \$67,000 account was written off in June 2018 relating to grant expenditures incurred in 2011 for which UMCES had never billed the grantor. As of December 31, 2018, outstanding grant receivable balances totaled \$2.2 million, including \$277,000 that had been outstanding for more than 90 days.

Our audit also included a review to determine the status of the finding contained in our preceding audit report. We determined that UMCES did not satisfactorily address this grant receivable finding; therefore, it is repeated in this report.

The USM Office’s response to this audit, on behalf of UMCES, is included as an appendix to this report. We reviewed the response to our finding and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during this audit by UMCES. We also wish to acknowledge USM's and UMCES' willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, prominent initial "G".

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The University of Maryland Center for Environmental Science (UMCES) engages in environmental research, public service, and educational activities at four regional laboratories: Appalachian Laboratory in Frostburg, Chesapeake Biological Laboratory in Solomons, Horn Point Laboratory in Cambridge, and the Institute for Marine and Environmental Technology in Baltimore. UMCES also includes the Sea Grant College, which coordinates the research efforts of the University System of Maryland that are associated with the Sea Grant Program within the United States Department of Commerce's National Oceanic and Atmospheric Administration. UMCES' administrative office is located in Cambridge, Maryland.

UMCES' budget is funded by unrestricted revenues, such as State appropriations, and restricted revenues, such as federal grants. According to the State's accounting records, fiscal year 2018 revenues totaled approximately \$50.5 million, which included a State general fund appropriation of approximately \$22.9 million. UMCES expenditures for fiscal year 2018 totaled approximately \$50.5 million.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated May 20, 2015. We determined that UMCES had not satisfactorily addressed this finding; therefore, the finding is repeated in this report.

Findings and Recommendations

Grants

Finding 1

UMCES did not adequately pursue collection of delinquent grant receivables, including a \$67,000 account from 2011 that had never been billed and was ultimately written off without approval from the State's Central Collection Unit (CCU).

Analysis

UMCES did not adequately pursue the collection of delinquent grant receivables as required by State regulations, and certain grant amounts due were written off without receiving approval from the State's CCU, as required, including one account for \$67,000 that had never been billed. UMCES receives grants from federal, State, and private entities for various purposes, such as to perform certain research activity. UMCES periodically requests reimbursement from these entities for qualifying grant expenditures. According to UMCES records, as of December 31, 2018, outstanding grant receivable balances totaled \$2.2 million, including \$277,000 that had been outstanding for more than 90 days.

- Our test of 10 reimbursement requests made during fiscal years 2017, 2018, and 2019 totaling approximately \$186,000, which had been outstanding for at least 90 days as of December 31, 2018, disclosed that UMCES did not adequately pursue collection for 8 requests totaling \$166,000. For example, for 6 of these requests totaling \$159,000, only one written demand for payment had been issued since the initial reimbursement request was made, and those demands were not issued until between 104 and 248 days after the initial requests.

Furthermore, the written payment demands did not state, as required, that delinquent accounts may be referred to CCU and were subject to possible interest and other charges for untimely payment. Delaying the pursuit of outstanding debts may decrease the likelihood of collecting the funds. A similar condition regarding the collection efforts for outstanding grant receivables was commented upon in our preceding audit report.

- UMCES wrote off certain grant amounts due without CCU's approval as required by State regulations. Based on our review of eight accounts that had been removed from the accounts receivable records during the audit period, we determined that three accounts were appropriate account adjustments, but

five accounts totaling \$88,000 had been written off without CCU approval, including a \$67,000 account written off in June 2018. We determined that the \$67,000 account write-off related to grant expenditures incurred in 2011 for which UMCES had never billed the grantor. UMCES could not readily quantify the total grant amounts written off during our audit period.

State regulations, which would apply in this grant reimbursement situation, generally require that three written demands for payment be made on accounts at 30-day intervals, and that these demands notify the debtor of possible interest and other charges and referral to CCU for untimely payment. In addition, unless specifically delegated to the agency, CCU approval is required for the write-off of amounts due.

Recommendation 1

We recommend that UMCES

- a. ensure that all grant amounts due are initially billed on a timely basis, and that subsequent written demands for payment are made at the intervals required by State regulations (repeat);**
- b. ensure written payment demands include required language notifying the debtor of possible interest and other charges and referral to CCU for untimely payment; and**
- c. discontinue the practice of writing off amounts due without CCU approval.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland Center for Environmental Science (UMCES) for the period beginning November 12, 2014 and ending December 16, 2018. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine UMCES' financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, purchases and disbursements, payroll, grants and contracts, corporate purchasing cards, and revolving accounts for research activities. We also determined the status of the finding contained in our preceding audit report.

Our audit did not include certain support services provided to UMCES by the USM Office, such as endowment accounting, and by the University of Maryland, College Park (UMCP), such as processing vendor payment transmittals and payroll. These support services are included within the scope of our audits of the USM Office and UMCP, respectively. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of UMCES' compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the components of the USM.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of UMCES' operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from UMCES' grants management system and financial management system for the purpose of testing grants and contracts. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

UMCES' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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

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

OFFICE OF THE CHANCELLOR

June 10, 2019

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

Re: University System of Maryland – University of Maryland
Center for Environmental Science
Period of Audit: November 12, 2014 through December 16, 2018

Dear Mr. Hook:

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 Center for Environmental Science (UMCES). Our comments refer to the individual items in the report.

Sincerely yours,



Robert L. Caret
Chancellor

Enclosures

cc: Dr. Peter Goodwin, President, UMCES
Ms. Lynn Rehn, Vice President, Administrative Affairs, UMCES
Ms. Linda R. Gooden, Chair, University System of Maryland Board of Regents
Mr. Robert L. Page, Associate Vice Chancellor for Financial Affairs, USM Office
Mr. David Mosca, Director of Internal Audit, USM Office

**RESPONSE TO LEGISLATIVE AUDIT REPORT
UNIVERSITY SYSTEM OF MARYLAND
UNIVERSITY OF MARYLAND CENTER FOR
ENVIRONMENTAL SCIENCE
NOVEMBER 12, 2014 TO DECEMBER 16, 2018**

Grants

Finding 1

UMCES did not adequately pursue collection of delinquent grant receivables, including a \$67,000 account from 2011 that had never been billed and was ultimately written off without approval from the State's Central Collection Unit (CCU).

Recommendation 1

We recommend that UMCES

- a. ensure that all grant amounts due are initially billed on a timely basis, and that subsequent written demands for payment are made at the intervals required by State regulations (repeat);**
- b. ensure written payment demands include required language notifying the debtor of possible interest and other charges and referral to CCU for untimely payment; and**
- c. discontinue the practice of writing off amounts due without CCU approval.**

Institution Response:

Recommendation 1(a)

UMCES will ensure that all grant amounts due are initially billed on a timely basis, and that subsequent written demands for payment are made at the intervals required by State regulations.

UMCES concurs with this recommendation and has implemented a review process to identify accounts in the billing system where an invoice may not have been generated. Written demands for payment are being sent at the required intervals.

**RESPONSE TO LEGISLATIVE AUDIT REPORT
UNIVERSITY SYSTEM OF MARYLAND
UNIVERSITY OF MARYLAND CENTER FOR
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NOVEMBER 12, 2014 TO DECEMBER 16, 2018**

Recommendation 1(b)

UMCES will ensure written payment demands include language notifying the debtor of possible interest and other charges and referral to CCU for untimely payment.

UMCES concurs with this recommendation and the language regarding referral to CCU has been added to the Dunning Letter.

Recommendation 1(c)

UMCES will discontinue the practice of writing off amounts due without CCU approval.

UMCES concurs with this recommendation and will discontinue this practice. UMCES will work with CCU to put in place the required approval procedure.

AUDIT TEAM

Robert A. Wells, Jr., CPA
Audit Manager

Tu N. Vuong
Senior Auditor

Patrick J. Cavanaugh
Staff Auditor