Audit Report

University System of Maryland
University of Baltimore

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

July 15, 2011

Karl S. Aro
Executive Director

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 Baltimore (UB) for the period beginning September 1, 2007 and ending July 5, 2010. UB is an urban public institution of USM and operates under the jurisdiction of USM's Board of Regents. UB offers career-oriented education at the bachelor's, master's and professional levels, offering degree programs in law, business, and liberal arts with an emphasis on applied and professional degrees.

Our audit disclosed that UB had not determined the proper disposition of $350,000 in student loan and scholarship checks issued between August 2005 and April 2009 that remained uncashed. In addition, UB did not always refer delinquent student accounts to the State's Central Collection Unit in a timely manner and some students with outstanding balances were permitted to register for classes at UB in violation of USM policy. We also noted instances in which UB did not obtain proper documentation to support student residency reclassifications from out-of-state status to in-state status. Finally, sufficient controls were not in place over UB's automated system and internal network, and certain internal control weaknesses were noted with respect to purchases and disbursements, and student grades.

An executive summary of our findings can be found on page 5. The USM Office's response to this audit, on behalf of UB, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by UB.

Respectfully submitted,

Bruce A. Myers

Bruce A. Myers, CPA
Legislative Auditor

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Executive Summary

Legislative Audit Report on the University System of Maryland (USM)
University of Baltimore (UB)
July 2011

- **UB had not determined the proper disposition of $350,000 in student loan and scholarship checks issued between August 2005 and April 2009 that remained uncashed. Although we were advised by UB management that it stopped payment on the checks as of September 2010, the related funds have been retained in a UB bank account.**

  UB should identify the sources of the aforementioned checks and determine the proper disposition of the funds.

- **UB did not always take appropriate and timely action to collect outstanding student account balances. Specifically, our testing noted instances in which delinquent accounts were not referred to CCU timely, and students with outstanding balances that were allowed to register for subsequent semesters.**

  UB should take appropriate and timely collection actions to collect outstanding student accounts, consistent with USM policy.

- **Proper documentation to support student residency status reclassifications was not always obtained, as required by USM policy. These determinations are critical because there is a significant difference between in-state and out-of-state tuition rates.**

  UB should obtain documentation supporting student residency status reclassifications.

- **Sufficient controls were not in place over UB's automated systems and internal network.**

  UB should take the recommended corrective actions to restrict access to its automated systems and improve security over its internal network.

- **Internal control deficiencies were also noted with respect to purchases and disbursements, and student grades.**

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

Background Information

Agency Responsibilities

The University of Baltimore (UB) is an urban public institution of the University System of Maryland. Beginning with the Fall 2007 semester, UB began operating as a traditional four-year institution, by admitting freshmen. Prior to that time, UB operated as a transfer institution, admitting undergraduates for their sophomore, junior, and senior years. UB also offers graduate and professional programs in such fields as law, business, public administration, and for related applications of the liberal arts.

Enrollment for the Spring 2010 semester totaled 5,905 students. UB's budget is funded by unrestricted revenues, such as tuition and student fees and a State general fund appropriation, and restricted revenues, such as federal grants and contracts. According to the UB's accounting records, fiscal year 2010 revenues totaled approximately $109.2 million, which included a State general fund appropriation of $29.3 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 11 findings contained in our preceding audit report dated July 18, 2008. We determined that UB satisfactorily addressed 7 of the findings. The remaining 4 findings were not resolved and are included in this report.

Findings and Recommendations

Financial Aid - Student Loan Refunds

Finding 1
The University of Baltimore (UB) had not determined the proper disposition of $350,000 in student loan and scholarship refund checks that had not been cashed for several years.

Analysis
UB did not determine the proper disposition of unclaimed federal and private student loan funds and scholarship funds. In this regard, student loan funds received from federal or private lenders, and scholarships, were deposited into a UB bank account and applied to the associated student tuition balances. Loan and scholarship funds exceeding tuition fees due were then refunded to students by check. Refund checks not cashed by students were identified by UB on monthly bank account reconciliations. However, UB did not determine the proper disposition of these outstanding checks. According to UB records, as of April 2010, 284 student loan and scholarship refund checks totaling approximately $350,000, issued between August 2005 and April 2009, had not been cashed by the intended recipients. UB had not determined the source of the funding for these checks, which could be vary from federal student loans to private loans and scholarships, and did not take appropriate action to re-direct, such as to the lender or grantor, or to cancel the checks.

We verified that UB management had stopped payment on the aforementioned checks in September 2010 and removed the checks from the bank reconciliation. The related funds have been retained in a UB exchange bank account until the proper disposition of the checks can be determined. UB recently instituted a procedure to help resolve these reconciling items and is in the process of determining the proper disposition of the funds.

Recommendation 1
We recommend that UB

a. identify the sources of the aforementioned uncashed loan and scholarship checks;
b. in conjunction with the lenders or grantors, determine the proper disposition of the funds and take appropriate corrective action; and
c. investigate and resolve all reconciling items during the reconciliation process in a timely manner.

Student Accounts Receivable

Finding 2
UB did not always take appropriate and timely action to collect delinquent student account balances.

Analysis
UB did not always take appropriate collection action, as specified in the Department of Budget and Management – Central Collection Unit (CCU) policy and the University System of Maryland (USM) Board of Regents' *Policy on Payment of Tuition and Fees*, to collect delinquent student account balances. According to UB's records, student accounts receivable balances totaled approximately $31.6 million as of August 2010, of which approximately $1.1 million had been outstanding since at least the Spring 2010 semester. Specifically, our test of 14 delinquent student accounts totaling approximately $115,000 as of August 2010, disclosed the following conditions:

- Three accounts with delinquent balances totaling $21,300 were not referred to CCU even though the accounts were delinquent for periods ranging from six months to four years beyond the time the accounts should have been transferred, based on CCU regulations. When we brought this to UB's attention, these accounts were subsequently referred to CCU.

- For five of the accounts with delinquent balances totaling $27,200, students did not have a specified exemption allowing them to register, yet the students were allowed to register for classes.

CCU regulations, as amended for UB, require that each semester's delinquent accounts be transferred to CCU within 150 days of the end of the semester. The USM Board of Regents' *Policy on Payment of Tuition and Fees* states that tuition and fees are due and payable in full by the stipulated due date unless the student is covered by a specified exemption, such as a payment plan. The *Policy* further requires that appropriate administrative action (such as barring class attendance) be initiated if timely payment is not received. Similar conditions were commented upon in our two preceding audit reports.

Recommendation 2
We recommend that UB
a. transfer all delinquent accounts to CCU on a timely basis, as required (repeat); and
b. not permit students with outstanding account balances to register for subsequent semesters unless the student qualifies for an exemption as specified in the Board's *Policy*.

Student Residency Status Reclassifications

Finding 3
Proper documentation to support student residency status reclassifications was not always obtained.

Analysis
Reclassifications of student residency status were not always supported. Our test of 14 residency status reclassifications (from out-of-state to in-state tuition status) made during fiscal year 2010 disclosed that UB did not obtain sufficient documentation from the students to support 4 reclassifications. For 2 of these items, the documentation provided suggested that the tuition status should have remained out-of-state. According to UB records, in fiscal year 2010, there were 383 residency reclassifications from out-of-state to in-state status. A similar condition was commented upon in our preceding audit report.

USM Board of Regents policy on S*tudent Classifications for Admission and Tuition Purposes* requires students to demonstrate their residency status (for example, demonstrate that they possess a valid Maryland driver's license) and that changes in residency status must be supported by such documentation. Accurate student residency status determinations are critical because of the significant differences between in-state and out-of-state student tuition rates. For example, full-time undergraduate tuition and fee charges for the spring 2010 semester totaled $3,586 for Maryland residents and $10,339 for non-residents, a difference of $6,753, per semester.

Recommendation 3
We recommend that UB obtain sufficient documentation supporting student residency status reclassifications, as required by USM policy (repeat), including for the aforementioned four students, and take appropriate action.

Purchases and Disbursements

Finding 4
Proper internal controls had not been established over the processing of purchases and disbursements.

Analysis
UB did not fully use the available security features of its automated system to restrict user access and to prevent unauthorized transactions. Specifically, our review noted the following conditions:

- Two employees had the capability to initiate and approve invoices without independent approvals. In addition, these employees had the capability to change vendors on invoices. During fiscal year 2010, these two employees processed transactions totaling $18.7 million. Although we were advised by UB management that the invoices were reviewed by supervisory personnel before they were released by supervisory personnel for payment, we were also advised that this review would not detect the change of a vendor. Consequently, fictitious payments could be processed without detection.

- One employee had unnecessary user access capabilities to process critical transactions that were not required for the employee's job duties. Specifically, this employee could initiate and approve purchase orders without regard to a particular dollar limit, although the employee's job duties did not require such user access. Subsequent to our testing, these capabilities were removed for this employee.

Prudent business practice dictates that there be an adequate segregation of duties between critical transactions such as initiating and approving purchases.

Recommendation 4

We recommend that UB

a. fully use the available automated security features by establishing independent online approval requirements for all critical transactions,

b. remove the capability of modifying vendor information for employees that process invoices, and

c. restrict user access capabilities to only employees that require it for their job duties.

Information Systems Security and Control

Background

UB's Office of Technology Services provides information systems support to UB through the implementation and maintenance of campus-wide applications, including financial, student administration, and human resource applications. UB also operates an integrated administrative and academic computer network, which provides connections to multiple servers used for administrative and academic purposes. The campus network also includes separate email and file servers, a firewall, and Internet connectivity, as well as multiple campus websites that function as entry points into many of UB's services.

Finding 5
UB's internal network, including numerous virtual servers which hosted critical systems, was not adequately protected.

Analysis
UB's internal network, including numerous virtual servers, which hosted critical systems, was not adequately protected. Specialized software developed in recent years allows for a single host server's resources (for example, the memory and processors) to be defined and subdivided into multiple virtual servers which can each operate as a separate unique server. As of December 2010, UB had 13 identically configured physical host servers that hosted approximately 140 virtual servers. Specifically, we noted the following conditions:

- The UB firewall was not configured to properly secure its network. For example, unnecessary and insecure connections were allowed from the Internet and from one of UB's neutral network zones to the internal network, thereby placing various critical internal network devices at risk. A similar condition was commented upon in our preceding audit report.

- The physical host servers had not been properly secured at the host server level. For example, our testing revealed that UB did not use the default host server-based firewall feature to protect the host servers.

- Certain network security option settings on the host servers' virtualization software were not properly configured in accordance with the software vendor's recommended security settings. As a result, network level security for the virtual servers residing on these host servers was weakened.

Recommendation 5
We recommend that UB
a. configure its firewall to properly secure its network (repeat),
b. properly secure all of its physical servers against attack, and
c. configure the software on its physical host servers in accordance with the vendor's recommendations to help ensure adequate security over the resident virtual servers.

Student Grades

Finding 6
Grades recorded in UB's automated system were not always independently verified and grade changes were not always properly approved, as required.

Analysis

Our review of all 32 grade rosters (containing 605 grades) that the Records Office recorded—on behalf of faculty members—for the Fall 2009 and Spring 2010 semesters disclosed that the grades of 16 rosters (containing 245 grades) were not independently verified by another employee, as required. Furthermore, our test of 30 grade changes recorded by the Records Office during fiscal year 2010 disclosed that 8 changes were not documented as having been approved by the Dean's office of the respective school. As a result, there was a lack of assurance that the grades or grade changes recorded in the automated system were proper. A similar condition was commented upon in our preceding audit report.

According to UB's policy, student grades were generally recorded in UB's automated system by the faculty member who instructed the class. When this was not possible, the Records Office recorded the grades based on the rosters submitted by the instructors. The policy further required that the recordation of the grades was to be verified by another employee and grade changes recorded by the Records Office were also to be approved by the Dean or his or her representative of the respective school. According to UB records, 6,837 grade changes were recorded during the period from September 2007 through July 2010.

Recommendation 6

We recommend that

a. **student grades recorded by the Records Office be verified to grade rosters by an employee independent of the grade processing function;**
b. **these verifications be documented and retained for future reference; and**
c. **changes to student grades recorded by the Records Office be approved by the Dean or the representative of the respective school, in accordance with UB policy (repeat).**

Audit Scope, Objectives, and Methodology

We have audited the University System of Maryland (USM) – University of Baltimore (UB) for the period beginning September 1, 2007 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 UB'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 purchases and disbursements, student accounts receivable, cash receipts, payroll, and information technology systems. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of UB'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 did not include an evaluation of internal controls for federal financial assistance programs and an assessment of UB'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 the components of the USM.

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

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

APPENDIX

OFFICE OF THE CHANCELLOR

July 14, 2011

Mr. Bruce A. Myers, 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 Baltimore
Period of Audit: September 1, 2007 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 Baltimore. Our comments refer to the individual items in the report.

Sincerely,

WE Kirwan

William E. Kirwan
Chancellor

WEK:mk
Enclosures

cc:
Mr. Robert L. Bogomolny, UB
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 Audit, USM Office

1807 University of Maryland, Baltimore
1856 University of Maryland, College Park
1865 Bowie State University
1866 Towson University
1886 University of Maryland Eastern Shore
1898 Frostburg State University
1900 Coppin State University
1925 Salisbury University
1925 University of Baltimore
1925 University of Maryland Center for Environmental Science
1947 University of Maryland University College
1966 University of Maryland, Baltimore County

University of Baltimore
Legislative Audit Report, Dated July, 2010
Responses to Draft Legislative Audit Report
July 14, 2011

Finding 1
The University of Baltimore (UB) had not determined the proper disposition of $350,000 in student loan and scholarship refund checks that had not been cashed for several years.

Recommendation 1
We recommend that UB

a. identify the sources of the aforementioned uncashed loan and scholarship checks;
b. in conjunction with the lenders or grantors, determine the proper disposition of the funds and take appropriate corrective action; and
c. investigate and resolve all reconciling items during the reconciliation process in a timely manner.

Response:
The University of Baltimore agrees with the finding. Identification of the source of these checks began in April 2010. It was determined that less than half of the outstanding checks were the result of student loans or other federal aid program. Proper disposition of each check was determined by August 2010 and corrective action commenced. As of January 2011, all of the aforementioned checks have been appropriately disposed. The records of the offices of Financial Aid, Student Accounts and Finance have been updated and reconciled, and all funds have been returned. Additionally, in August 2010, procedures were developed and documented to ensure the timely review of outstanding student refund checks. These procedures require investigation and resolution of all outstanding checks in a timely manner.

Finding 2
UB did not always take appropriate and timely action to collect delinquent student account balances.

Recommendation 2
We recommend that UB

a. transfer all delinquent accounts to CCU on a timely basis, as required (repeat); and not permit students with outstanding account balances to register for subsequent semesters unless the student qualifies for an exemption as specified in the Board's Policy.

Response:
The University of Baltimore agrees with the finding and will ensure all delinquent accounts are sent to CCU on a timely basis. The University uses the automated feature in PeopleSoft to

ensure negative service indicators are placed on every account that is 30 days past due. This negative service indicator prevents registration for a subsequent semester.

Summer students are not flagged as past due until the end of the summer add/drop period. Any student registering for the fall semester, before the end of summer add/drop period, is not prevented from registering because his/her account balance is not yet past due. The University does prevent delinquent students from registering after the summer add/drop period. The University will engage in extensive outreach to students with delinquent summer balances but the fall registrations will not be automatically cancelled.

Finding 3
Proper documentation to support student residency status reclassifications was not always obtained.

Recommendation 3
We recommend that UB obtain sufficient documentation supporting student residency status reclassifications, as required by USM policy (repeat), including for the aforementioned four students, and take appropriate action.

Response
The University of Baltimore agrees with the finding. The University has revised its procedures to ensure appropriate documentation and secondary review.

Finding 4
Proper internal controls had not been established over the processing of purchases and disbursements.

Recommendation 4
We recommend that UB

a. fully use the available automated security features by establishing independent online approval requirements for all critical transactions,
b. remove the capability of modifying vendor information for employees that process invoices, and
c. restrict user access capabilities to only employees that require it for their job duties.

Response:
The University of Baltimore agrees with the finding. By the end of August 2011, the University will have disabled the update access to the vendor table for all accounts payable staff. User access has been updated for the employee who could process critical transactions which were not required for his job. All access is being periodically reviewed to ensure users only have access required to perform their job.

Finding 5
UB's internal network, including numerous virtual servers which hosted critical systems, was not adequately protected.

Recommendation 5
We recommend that UB

a. configure its firewall to properly secure its network (repeat),
b. properly secure all of its physical servers against attack, and
c. configure the software on its physical host servers in accordance with the vendor's recommendations to help ensure adequate security over the resident virtual servers.

Response:
The University of Baltimore agrees with the finding and has taken corrective action on all audit recommendations as of May 2011.

Finding 6
Grades recorded in UB's automated system were not always independently verified and grade changes were not always properly approved, as required.

Recommendation 6
We recommend that

a. student grades recorded by the Records Office be verified to grade rosters by an employee independent of the grade processing function;
b. these verifications be documented and retained for future reference; and
c. changes to student grades recorded by the Records Office be approved by the Dean or the representative of the respective school, in accordance with UB policy (repeat).

Response:

The University of Baltimore agrees with the finding. To satisfy recommendations a and b, an employee, independent of the grade processing function, verifies student grade changes against source documents. These verifications are now documented and retained by the Records office.

Regarding recommendation c, the University requires all grade changes, except repeated law courses, to be signed by both the instructors and the instructor's Dean. The Law School policy for repeat courses stipulates the student's initial grade earned and the grade from the repeated course be averaged together. This averaging is done in the Dean's office. A second person in the Dean's office who is not responsible for the averaging process conducts an independent review. The Dean's office submits the averaged grade to the Records office to update the student's transcript. The instructor of the initial course and the instructor for the repeated course are not involved in the averaging process and therefore have no approving role in the grade change. This new process is in place and will occur when summer repeated course grades are submitted.

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