

Audit Report

Baltimore City Community College

November 2017



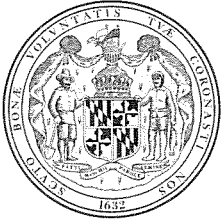
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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

November 14, 2017

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Baltimore City Community College (BCCC) for the period beginning October 24, 2013 and ending November 29, 2016. BCCC is an urban two-year institution that primarily offers associate of arts degrees and certificate programs in the business and health services fields, as well as general studies for the purpose of continuing education at a four-year institution.

Our audit disclosed significant procurement deficiencies within BCCC's Facilities Planning and Operations Department, resulting in a circumvention of State procurement regulations. Department employees directly solicited, received, and evaluated bids and selected vendors to supply maintenance goods and services. Many of these purchases were artificially divided to avoid competitive public solicitations or the use of statewide contracts, as well as the involvement of BCCC's central procurement personnel. During a three-year period, the Department made 178 payments to the same seven vendors totaling \$420,000, each below the \$15,000 threshold requiring central personnel to perform procurement tasks. We also noted that Department employees shared corporate purchasing cards and certain purchasing card transactions tested were not supported by detailed vendor invoices.

These procurement practices allowed certain questionable purchasing activity to occur within the Department without detection. Our tests disclosed an apparent familial relationship between vendors from which bids were directly solicited. We also identified questionable payments totaling \$73,900, such as payments for maintenance services performed in rooms or on equipment that did not exist and

for invoices lacking sufficient details of work performed. Even though BCCC received several allegations regarding this questionable activity, it did not conduct a detailed review of the related transactions prior to concluding that the allegations were unsubstantiated. Consequently, BCCC did not refer them to the Office of the Attorney General – Criminal Division and advise the Governor’s Chief Legal Counsel as required.

BCCC granted several senior management positions salary incentives or increases without adequate justification and the required approval from its Board of Trustees. BCCC also did not have a current and comprehensive agreement with its affiliated foundation and the most recent agreement did not contain any operational goals or outcomes to be achieved by the foundation. In fiscal years 2015 and 2016, BCCC provided funding of approximately \$525,000, representing 65 percent of the foundation’s total revenue.

We also found that adequate safeguards were not in place to protect BCCC’s computer network and related administrative systems from security risks. Sensitive personally identifiable information maintained by BCCC was stored in clear text and malware protection for BCCC computers was not sufficient to provide adequate assurance that these computers were properly protected.

Finally, we noted internal control and recordkeeping deficiencies with cash receipts and equipment. For example, accurate equipment records were not maintained, physical inventories were not conducted, and certain computer equipment remained in storage and had not been placed in service several years after acquisition.

BCCC’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 BCCC.

Respectfully submitted,



Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Baltimore City Community College (BCCC) is an urban two-year institution and operates under the jurisdiction of BCCC's Board of Trustees. BCCC primarily offers associate of arts degrees and certificate programs in the business and health services fields, as well as general studies for students to continue their education at four-year institutions. BCCC has one main campus, five satellite locations, and more than 80 off-campus sites throughout Baltimore. BCCC's reported full-time equivalent enrollment for credit courses in the Spring 2016 semester was 1,073. According to the State's accounting records, BCCC's fiscal year 2016 revenues totaled approximately \$76 million, which included a State General Fund appropriation of approximately \$41 million.

Legislation

Chapter 847, Laws of Maryland 2017, effective May 27, 2017, modified the composition of the Board of Trustees and certain of its responsibilities and duties. Significant changes included the requirement that the Chair of the Board be jointly appointed by the Senate President and the Speaker of the House of Delegates. In addition, the chief executive officer of the Baltimore City Public Schools and a representative of the Mayor of Baltimore were appointed as ex-officio members. Finally, the law granted the Board expanded powers and responsibilities over the operations of BCCC, including monitoring the achievement of academic outcomes, budgeting, workforce planning, and the development or sale of unused or underutilized real estate holdings.

Financial Statement Audits

BCCC engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2014, 2015, and 2016. In the related audit reports, the firm stated that BCCC's financial statements presented fairly, in all material respects, the respective financial position of BCCC and the foundation, and the respective changes in their financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the seven findings contained in our preceding audit report on BCCC dated December 9, 2014. We determined that BCCC satisfactorily addressed three of these findings. The remaining four findings are repeated in this report.

Findings and Recommendations

Facilities Planning and Operations Department

Finding 1

The Baltimore City Community College's (BCCC) Facilities Planning and Operations Department circumvented State regulations in the procurement of certain goods and services. Based on our review, certain of these procurements and related payments appeared questionable.

Analysis

BCCC's Facilities Planning and Operations Department circumvented State regulations in the procurement of certain goods and services. We determined that certain of these procurements and related payments appeared questionable. According to State records, expenditures (excluding payroll) in this Department totaled \$2.9 million in fiscal year 2016. Based on a referral to our fraud, waste, and abuse hotline, we analyzed the expenditures incurred by this Department for a multi-year period, which identified these conditions.

BCCC Artificially Divided Purchases Circumventing State Procurement Regulations

The Department artificially divided purchases, circumventing State procurement regulations. Our analysis of State expenditure data for fiscal years 2014 through 2016 disclosed that the Department made 178 payments to seven vendors for goods and services totaling approximately \$420,000, each of which was less than \$15,000. The Department procured these goods and services without determining whether they were available from existing statewide contracts or without undertaking public solicitations, entering into written contracts, and publishing the awards.

For example, during fiscal year 2016, BCCC artificially divided purchases for electrical supplies from one vendor totaling \$41,000 into 27 smaller procurements, each under \$5,000, rather than combine the purchases into a larger procurement, which would have been available under a statewide contract. In another case, during fiscal year 2015, BCCC artificially divided purchases from another vendor for building repairs totaling \$40,400. BCCC divided these purchases into 19 smaller procurements, rather than combine them into a larger procurement. By failing to combine purchases and use an existing statewide contract or seek a competitive procurement, BCCC did not maximize the State's purchasing power or ensure that it obtained the best prices.

Similar conditions regarding the failure to consolidate procurements to maximize purchasing power were included in our preceding audit report. State procurement regulations prohibit agencies from purchasing items from alternate sources when the items are available through statewide contracts and the total cost for the year for all purchases exceeds \$10,000. When items are not available under statewide contracts, State procurement regulations require documented bids and written contracts for procurements over \$5,000, and generally require a formal written competitive procurement and publication of the solicitation on *eMaryland Marketplace* for procurements over \$15,000.

Insufficient Controls Allowed Certain Questionable Procurements

Department employees directly solicited, received, and evaluated the bids and selected the vendors. BCCC central procurement personnel were only required to execute purchase orders for the vendors selected by the Department. Had these purchases exceeded \$15,000, BCCC's central procurement personnel would have publicly solicited and evaluated the bids and selected the vendors, rather than the Department controlling the entire process.

We reviewed 16 Department procurements totaling \$140,000, each under \$15,000, including 11 from the aforementioned seven vendors. For 6 procurements totaling \$65,000, we identified relationships between competing bidders. For example, for 3 procurements of electrical services, BCCC obtained bids from the same two companies owned by an individual or a close relative of the individual. Payments for these 3 procurements totaled \$33,000 during fiscal years 2014 through 2016. Department employees directly solicited bids for these procurements and, therefore, it should have been readily apparent that they were soliciting bids from the same individual or the individual's close relative.

Certain Payments Were Questionable and Were Not Supported by Proper Invoices

Invoices included questionable charges and did not always provide sufficient detail to allow BCCC to substantiate the propriety of the amounts billed. Based on our analyses of expenditure activity, we selected 15 payments for maintenance services totaling approximately \$76,000 and noted the following conditions applicable to 14 payments totaling \$73,900:

- Six payments totaling \$42,000 were for services that appeared questionable based on the invoice descriptions of work performed. For example, BCCC paid a \$7,495 invoice for maintenance work on a room that did not exist and a \$14,250 invoice for maintenance on HVAC equipment that did not exist. BCCC management could not explain these payments nor provide us with documentation to support the services were provided.

- BCCC made seven other payments totaling \$28,000 even though the proposals and invoices submitted by the vendors lacked sufficient details to allow BCCC to determine the propriety of the billings and to ensure costs were reasonable for the services performed. For example, the proposal and invoice from one vendor for \$4,375 in electrical work did not state the location where the work was performed, nor did the documents state the cost of materials and the labor hours to support the amount being charged.
- A \$3,900 invoice for the installation of four cell phone charging stations did not include details (such as labor rates and hours) and appeared excessive. BCCC purchased the cell phone charging stations from one vendor and procured the installation services from another vendor. According to the invoice for the purchase of the charging stations, the units “mount securely to any flat surface within minutes.” Therefore, the amount paid for the installation services appears unreasonable.

BCCC’s Response to These Allegations Was Inadequate

BCCC’s compliance hotline received several allegations regarding the aforementioned questionable activity, but BCCC’s actions in response to these allegations were inadequate. Specifically, upon receipt, BCCC referred these allegations to a senior management employee for investigation, who interviewed relevant employees, but BCCC did not conduct a detailed review of the transactions prior to concluding that the allegations were unsubstantiated. Consequently, BCCC did not refer these allegations to the Office of the Attorney General (OAG) – Criminal Division and did not advise the Governor’s Chief Legal Counsel, as required.

The Governor’s Executive Order, *Standards of Conduct for Executive Branch Employees*, requires that all State departments and agencies immediately report any instance of possible criminal or unethical conduct by an employee or contractor of the State to the Governor’s Chief Counsel. Furthermore, internal OAG policy requires the agency’s legal counsel to report all such instances to the OAG – Criminal Division.

As a result of our review, we referred our findings to the OAG – Criminal Division. A referral to the Criminal Division does not mean that a criminal act has actually occurred or that criminal charges will be filed.

Recommendation 1

We recommend that BCCC

- a. use existing Statewide contracts for the procurement of goods and services, when available;**
- b. discontinue the practice of artificially dividing purchases to circumvent State procurement regulations and lessen its purchasing power;**
- c. comply with State procurement regulations for competitive procurement, including the use of written contracts and the publication of solicitations and awards on *eMaryland Marketplace* and (repeat);**
- d. ensure that vendor invoices contain sufficient details to determine the propriety and reasonableness of the services performed and amounts billed;**
- e. conduct thorough reviews of vendor invoices, including those related to the aforementioned payments, investigate and resolve any discrepancies, and recover any amounts that are determined to be improperly billed; and**
- f. consult with the Office of the Attorney General – Criminal Division before taking any actions related to the questionable payments noted, and refer any other questionable activity to the Office of the Attorney General – Criminal Division and advise the Governor’s Chief Legal Counsel.**

Corporate Purchasing Cards

Finding 2

Several BCCC employees shared their corporate purchasing cards (CPC), precluding effective accountability and control, and did not have required documentation to support certain payments.

Analysis

BCCC employees in the Facilities Planning and Operations Department shared their CPCs, precluding effective accountability and control, and did not have documentation, such as detailed invoices, to support certain payments, as required by State CPC policy. According to the issuing bank’s records, BCCC’s corporate purchasing card expenditures during fiscal years 2014 through 2016 totaled \$5.3 million. The Department’s CPC activity, which involved cards issued to six employees, totaled \$1.1 million during this period. Based on the same referral to our fraud, waste, and abuse hotline that was noted in Finding 1, we analyzed the activity for the six CPCs issued to Department employees.

- We identified numerous instances in which cardholders in the Department shared their cards with other employees, precluding effective accountability

and control. In addition, we were advised by a Department management official that a former management employee had directed another former employee to pay vendors using the card information this individual maintained for the Department's cardholders.

- Payments were not always adequately supported. Our review of five payments for maintenance services totaling \$10,900 disclosed three purchases totaling \$6,500 that were not supported. Other than the purchasing card customer receipt documentation, there were no invoices or itemized vendor receipts describing the goods and services purchased. As a result, we were unable to determine the propriety of these payments. Furthermore, the purchasing logs reflected that these three purchases had been approved by the cardholders' supervisor, raising concerns about the thoroughness of the supervisory review of these transactions. A similar condition regarding the lack of support for CPC charges was noted in our preceding audit report.

The Comptroller of Maryland's *Corporate Purchasing Card Program Policy and Procedures Manual* prohibits the sharing of cards and account numbers. Additionally, the *Manual* requires itemized documentation, such as detailed invoices, to be retained as support for all CPC transactions.

Recommendation 2

We recommend that BCCC

- a. prohibit cardholders from sharing their cards with other employees; and**
- b. ensure that proper documentation, such as itemized vendor invoices, is obtained to support all CPC transactions (repeat).**

Payroll

Finding 3

BCCC granted salary incentives or increases totaling \$129,250 to four senior management positions without adequate justifications, including three increases that were not approved by its Board of Trustees.

Analysis

BCCC granted salary incentives or increases totaling \$129,250 to four senior management positions without adequate justifications and, in three cases, without required approval from its Board of Trustees. We tested 11 salary increases totaling \$235,000 awarded from June 2015 to April 2017 and noted the following conditions:

- In March 2016, BCCC paid a senior management employee a \$25,000 incentive bonus for fiscal year 2015 without any documentation that the employee fulfilled the conditions for the bonus. Specifically, the senior management employee's contract stipulated that, upon successful completion of certain goals, the employee would receive an annual incentive payment of no more than \$25,000. The contract further provided that these goals would be set by November 1, 2014 for the first evaluation period (fiscal year 2015) and by July 1 of each year thereafter. While the Board authorized the bonus because it determined that the senior management employee had a successful review by the Board, BCCC lacked documentation that the goals were established and that the employee met the goals to earn the bonus as required by the terms of the employment contract.
- BCCC increased the salaries for three senior management positions without adequate justification and Board approval. Based on our review of available documentation, the salaries for two employees increased by \$28,600 and \$26,800, respectively, because they would be performing additional duties not included in their position descriptions. Our review of their current position descriptions disclosed, however, that the additional duties were generally within the employees' existing responsibilities. In the third instance, BCCC hired a senior management employee at an annual salary that was \$48,850 greater than the salary of the former employee in that position, with no documentation to support the increase. In response to our inquiry about this increase, BCCC advised that an individual with additional skills and experience was required for this role, and accordingly, the salary was increased. However, we noted that the Board of Trustees was not given an opportunity to assess the appropriateness of the final salary.

The aforementioned four senior management employees were all receiving compensation in excess of \$100,000. In this regard, State law authorizes BCCC's Board of Trustees to establish salaries and terms of employment for BCCC employees. The Board delegated this authority to the BCCC President with the provision that all personnel actions be submitted to the Board of Trustees and, for salaried positions exceeding \$100,000, be approved by the Board.

Recommendation 3

We recommend that BCCC ensure that salary increases and incentives are appropriately justified, in accordance with the terms of employment contracts, and approved by the Board of Trustees, as required.

Affiliated Foundation

Finding 4

BCCC did not maintain a current and comprehensive agreement with its affiliated foundation, as required. In addition, the most recent agreement did not contain any financial or operational goals and outcomes to be achieved by the foundation even though BCCC subsidized a significant percentage of the foundation's expenses during fiscal years 2015 and 2016.

Analysis

BCCC did not have a current agreement with its affiliated foundation to delineate the structure of the relationship between the college and foundation, as required. Furthermore, the most recent agreement with the foundation, dated September 2015, did not contain any operational goals or outcomes to be achieved by the foundation even though, during fiscal years 2015 and 2016, BCCC provided the majority of the foundation's funding. The foundation's stated purpose is to advance the mission of BCCC by strengthening philanthropic giving to the College, supporting students with scholarships, and working to advance BCCC as a vital part of Baltimore City's economy and community. During fiscal years 2015 and 2016, the foundation's operating costs totaled \$637,066 and scholarships and grants awarded totaled \$177,694.

BCCC did not have a current agreement with the foundation delineating the relationship between the two entities, as required by State regulations. As of May 2017, the most recent agreement with the foundation expired in June 2016. State regulations require BCCC to document its relationship with the foundation through a written agreement.

Furthermore, the expired agreement did not contain any provision for BCCC to fund the foundation's staffing even though BCCC has historically paid these costs, nor did the expired agreement establish any formal goals or outcomes for the foundation on which to base BCCC's financial support. According to the foundation's audited financial statements, BCCC paid the salaries and benefits for the foundation's three employees, which totaled \$524,846 during fiscal years 2015 and 2016, representing 65 percent of the foundation's total revenue during those years (see Table 1 on page 14). The foundation's remaining revenue for this two-year period totaled \$278,679, which included donations and grants of \$221,477.

Absent any formal foundation goals or desired outcomes in those areas, we also were advised by BCCC management that it was unaware of any current plan by the foundation to enhance public giving or reduce non-scholarship costs. The

foundation’s audited financial statements for fiscal year 2017, which were issued after the conclusion of our audit fieldwork, disclosed that grants and scholarship activity increased, after the foundation’s release of restricted investment funds for that purpose.

Table 1
BCCC Foundation Financial Activity
Fiscal Years 2015 and 2016

	Fiscal Year 2015	Fiscal Year 2016	Total 2015 and 2016	
			Dollars	Percent
Donations and Grants	\$99,839	\$121,638	\$221,477	28%
BCCC Payroll Subsidy	235,537	289,309	524,846	65%
Other Revenue	49,572	7,630	57,202	7%
Total Revenue	\$384,948	\$418,577	\$803,525	100%
Scholarships and Grants	\$102,965	\$74,729	\$177,694	22%
Operating Expenses (Management and Other)	298,557	338,509	637,066	78%
Total Expenses	\$401,522	\$413,238	\$814,760	100%

Source: Foundation Audited Financial Statement

Recommendation 4

We recommend that BCCC establish a comprehensive agreement with its foundation that establishes formal goals and outcomes for the foundation and identifies the related BCCC funding to be provided. In addition, the foundation agreement should identify any planned steps or actions to enhance fundraising and/or reduce non-scholarship costs.

Information Systems Security and Control

Background

BCCC’s Information Technology Services Division (ITSD) manages the development, maintenance, and support of BCCC’s information and technology infrastructure including all related networking, telecommunications, and business information systems. The ITSD maintains an integrated administrative and academic computer network, which includes separate email and file servers, Internet connectivity, and multiple firewalls. ITSD also maintains critical

enterprise applications as well as departmental systems supporting student, human resource, and financial information systems. Finally, ITSD is responsible for all classroom and student computer lab software and hardware configurations.

Finding 5

Sensitive personally identifiable information (PII) maintained by BCCC was stored without adequate safeguards.

Analysis

Sensitive personally identifiable information maintained by BCCC was stored in clear text. Specifically, we determined that as of the date of our test work in March 2017, BCCC records indicated that it stored PII, including social security numbers, and full names with dates of birth in clear text in numerous databases. For example, we noted 327,679 unique social security numbers in one of those databases. In addition, ITSD management advised us that this sensitive PII was not protected by other substantial mitigating controls. Furthermore, BCCC had not performed an inventory of its systems to identify all sensitive PII, determined if it was necessary to retain the PII, and deleted PII identified as unnecessary. Finally, we determined that the databases and server hosting this PII were not capable of encrypting this information.

This sensitive PII is commonly associated with identity theft. Accordingly, appropriate information system security controls need to exist to ensure that this information is safeguarded and not improperly disclosed. The State of Maryland's *Information Security Policy* requires that agencies protect confidential data using encryption technologies and/or other substantial mitigating controls. Similar conditions regarding the failure to encrypt or otherwise properly protect sensitive PII were commented upon in our preceding audit report.

Recommendation 5

We recommend that BCCC

- a. perform a complete inventory of its systems and identify all sensitive PII,**
- b. determine if it is necessary to retain this PII and delete all unnecessary PII,**
- c. determine if all necessary PII is properly protected by encryption or other substantial mitigating controls, and**
- d. update its databases and systems with encryption capability and then encrypt all sensitive PII not otherwise properly protected or employ other substantial mitigating controls to protect this data (repeat).**

Finding 6**Malware protection for BCCC computers was not sufficient to provide BCCC with adequate assurance that its computers were properly protected.****Analysis**

Malware protection for BCCC computers was not sufficient to provide BCCC with adequate assurance that its computers were properly protected.

- BCCC did not determine if current malware protection software, along with current malware protection signature files, was installed and operational on the 815 active workstations and servers in its critical administrative domain as of April 11, 2017. BCCC used a central management console and malware inventory management software to monitor and maintain malware protection software for each of these computers. However, our April 11, 2017 review of the malware protection central management console and inventory management software identified 140 computers with no evidence that malware protection software had been installed. Further, of the 675 computers with malware protection software installed, we identified 60 computers that were running an outdated version of the software and another 61 computers that were using malware protection signature files that were more than nine days old (these signature files are generally updated daily).
- We determined that users of 140 workstations were assigned local administrative rights on their workstations, even though these users were not system/network administrators and, documentation was not maintained that authorized and supported the necessity of the assigned administrative rights. Consequently, if the above workstations were infected with malware, the malware would run with administrative rights and expose these workstations to a greater risk of compromise than if the workstations' user accounts operated with only user rights. Furthermore, since 350 workstations were configured with the local administrators group defined to include large user groups, numerous BCCC users could have logged into these workstations with administrative rights. Similar conditions were commented upon in our preceding audit report.
- Certain BCCC workstations had not been updated with the latest releases for software products that are known to have significant security-related vulnerabilities, which could lead to a malware infection. Although the vendors for these software products frequently provide software patches to address these vulnerabilities, BCCC had not updated these workstations for these patches. For example, we identified 385 workstations with an outdated commonly vulnerable application with some of the installed software dating

back to February 2002. A similar condition was commented upon in our preceding audit report.

Recommendation 6

We recommend that BCCC

- a. ensure, on an ongoing basis, that all active computers have current signature files, and up-to-date malware protection software installed, and operational;**
- b. limit the assignment of administrative rights on workstations to specific system/network administrators and those users specifically allowed such rights, with any such assignments to non-information technology administrators being justified, approved, documented, and regularly reviewed to determine whether they are still needed (repeat); and**
- c. ensure that all workstations are kept up-to-date for critical security related updates for commonly vulnerable applications (repeat).**

Cash Receipts

Finding 7

BCCC did not immediately restrictively endorse checks and deposit collections timely at its Liberty Campus.

Analysis

BCCC did not immediately restrictively endorse and deposit collections timely at its Liberty Campus. According to BCCC records, collections deposited during fiscal year 2016 at the Liberty Campus totaled approximately \$5.8 million.

Our review disclosed that checks were routinely placed in a safe for up to two business days prior to being restrictively endorsed, while BCCC employees researched the proper disposition of the funds. In addition, our test of 20 high dollar amount checks received during the audit period, totaling approximately \$1.7 million, disclosed that 12 checks totaling \$1.6 million were deposited between 4 to 7 business days after receipt.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that checks be restrictively endorsed immediately upon receipt and be deposited no later than the first working day after the day of receipt.

Recommendation 7

We recommend that BCCC

- a. restrictively endorse checks immediately upon receipt, and**
- b. ensure that receipts are deposited timely.**

Equipment

Finding 8

BCCC did not maintain complete and accurate equipment records, could not locate certain equipment, and could not document that it conducted physical inventories of equipment as required. In addition, 40 computers purchased several years ago were never placed into service.

Analysis

BCCC could not document that it conducted physical inventories of equipment, did not maintain complete and accurate records, and could not locate certain equipment. According to BCCC's records, its equipment inventory was valued at \$30.7 million as of June 30, 2016.

- BCCC's detailed equipment records were not complete and accurate, and certain equipment could not be located. Specifically, our test of the detailed records for 15 computers costing \$10,600 disclosed that, for 12 costing \$8,400, the detailed records did not include the specific locations of the computers such as room numbers and, for 9 of the computers costing \$6,300, the records had incomplete or inaccurate information such as serial and model numbers. In addition, BCCC could not locate 10 of the 15 computers costing \$7,000 that were purchased in August 2015.
- BCCC lacked documentation that complete physical inventories of sensitive and non-sensitive equipment were conducted during our audit period. Although BCCC personnel advised us that an inventory of all equipment was completed in fiscal year 2014, BCCC did not maintain documentation, such as count sheets, to support that these inventory counts had been conducted and the results reconciled to the detailed records.
- BCCC had not placed computer equipment in service several years after its acquisition, and the unused equipment remained in storage. Our review as of June 2017 disclosed 40 desktop computers costing \$28,000, purchased during the period between September 2014 and June 2015, which were not placed in service because the software to be installed on the computers had not been upgraded for compatibility with the computers' new operating system. BCCC

placed them in storage without any expected service date. Since technology is constantly changing, the value and future use of this equipment is questionable.

The Department of General Services' (DGS) *Inventory Control Manual* requires that equipment records reflect information including, but not limited to, item description, serial number, and physical location. The *Manual* further requires that physical inventories be conducted for sensitive equipment items annually and for non-sensitive equipment items every three years and the results reconciled to the related detail records. Finally, the *Manual* provides that when items are no longer needed, they are to be declared as excess property and not be placed in storage without DGS approval.

Recommendation 8

We recommend that BCCC

- a. ensure that the equipment records are complete and accurate;**
- b. investigate the aforementioned missing equipment and take appropriate corrective action;**
- c. conduct documented physical inventories of sensitive and non-sensitive equipment, as required, and reconcile the results to the detail inventory records; and**
- d. refrain from purchasing equipment that is not needed for immediate use.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Baltimore City Community College (BCCC) for the period beginning October 24, 2013 and ending November 29, 2016. 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 BCCC's 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 materiality and risk. The areas addressed by the audit included purchases and disbursements, student accounts receivable, financial aid, cash receipts, payroll, affiliated foundation, and information technology. Furthermore, we reviewed purchases and disbursements, including corporate purchasing card expenditures, within BCCC's Facilities Planning and Operations Department relevant to a referral to our fraud, waste, and abuse hotline. We also determined the status of the findings contained in our preceding audit report.

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 BCCC's 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 BCCC.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of BCCC's 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 sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from BCCC's financial system for the purpose of testing certain areas, such as student accounts receivable. 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.

BCCC'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.

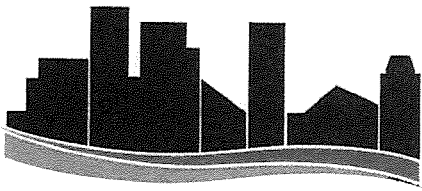
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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

BCCC'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 BCCC regarding the results of our review of its response.

APPENDIX

OFFICE OF THE PRESIDENT



**BALTIMORE CITY
COMMUNITY COLLEGE**

November 8, 2017

2901 Liberty Heights Ave.
Baltimore, Maryland 21215-7893

410-462-8300
www.bccc.edu

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President/CEO

Lawrence J. Hogan, Jr.
Governor State of Maryland

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Jason Perkins-Cohen (Ex-Officio)

Ferdinand Anokwuru
Student Trustee

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
301 West Preston Street
Room 1202
Baltimore, MD 21201

Re: Audit of Baltimore City Community College
October 24, 2013 through November 29, 2016

Dear Mr. Barnickel, III:

Enclosed, please find the Baltimore City Community College response to the 3-year Fiscal Compliance Audit for the period beginning October 24, 2013 and ending November 29, 2016.

As requested, I have sent the electronic version of the response by email to response@ola.state.md.us and a paper copy to the aforementioned address.

On behalf of Baltimore City Community College, I thank you for the comprehensive review of the Colleges financial transactions, internal controls, and evaluation of our compliance with applicable State of Maryland laws. Please do not hesitate in contacting me at 410.462.8054 or by email at gfmay@bccc.edu if additional information is needed.

Sincerely,

Gordon F. May, PhD
President and CEO

c: Kurt L. Schmoke, Esq., Chair, Board of Trustees, BCCC
Bryan Perry, Esq., Chief of Staff and General Counsel, BCCC
Ms. Lyllis M. Green, BCCC Chief Internal Auditor
Calvin H. Harris, Jr., Vice President, Administration and Finance, BCCC

Finding 1

The Baltimore City Community College's (BCCC) Facilities Planning and Operations Department circumvented State regulations in the procurement of certain goods and services. Based on our review, certain of these procurements and related payments appeared questionable.

Recommendation 1

We recommend that BCCC

- a. use existing Statewide contracts for the procurement of goods and services, when available;**
- b. discontinue the practice of artificially dividing purchases to circumvent State procurement regulations and lessen its purchasing power;**
- c. comply with State procurement regulations for competitive procurement, including the use of written contracts and the publication of solicitations and awards on *eMaryland Marketplace* and (repeat);**
- d. ensure that vendor invoices contain sufficient details to determine the propriety and reasonableness of the services performed and amounts billed;**
- e. conduct thorough reviews of vendor invoices, including those related to the aforementioned payments, investigate and resolve any discrepancies, and recover any amounts that are determined to be improperly billed; and**
- f. consult with the Office of the Attorney General – Criminal Division before taking any actions related to the questionable payments noted, and refer any other questionable activity to the Office of the Attorney General – Criminal Division and advise the Governor's Chief Legal Counsel.**

BCCC Response: We concur.

- a. BCCC has and will continue to use Statewide contracts for the procurement of goods and services, when available.
- b. Internal controls over split purchases have improved in order to detect and prevent split purchases
- c. Solicitations and awards of \$5,000 or more are being published on *eMaryland Marketplace* and comply with State procurement regulations for competitive procurement and use of written contracts.
- d. Vendor invoices are reviewed to ensure that they contain sufficient details to determine the propriety of reasonableness of the services performed and amounts billed.
- e. Our review disclosed that one vendor had transactions that were not valid. We disputed three transactions for this vendor totaling \$5,955.50 that was credited later.
- f. In addition to investigation by the senior BCCC management employee, BCCC ComplianceLine allegations that evidence questionable ethics are referred to the Office of Human Resources for the EEO/Compliance officer. As a matter of practice, any issues of

RESPONSE TO LEGISLATIVE AUDIT REPORT
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conflict of interest or employee ethical conduct are referred to the Office of Human Resources for disposition by the EEO/Compliance officer. However, the EEO/Compliance officer is not required to communicate which allegations are reported to the AG –Criminal Division and the Governor’s Chief Legal Counsel. Future issues related to questionable payments or activity will include consultation with the AAG as recommended.

Finding 2

Several BCCC employees shared their corporate purchasing cards (CPC), precluding effective accountability and control, and did not have required documentation to support certain payments.

Recommendation 2

We recommend that BCCC

- a. prohibit cardholders from sharing their cards with other employees; and**
- b. ensure that proper documentation, such as itemized vendor invoices, is obtained to support all CPC transactions (repeat).**

BCCC response: We concur.

While the College does concur, it should be noted that this problem was identified and resolved by the College before the audit commenced. The internal controls of the College identified the problem and the internal controls of the College resolved the problem.

After this situation occurred, the card administrator continued the process of routine notifications to all cardholders, reviewers, and others regarding the rules of safeguarding the card and the card number, among other notifications regarding important card facts, rules and procedures.

- a. New and existing cardholders receive training on the use of corporate purchase cards.
- b. Documentation is reviewed monthly to ensure proper support is provided for card transactions.

In summary, the processes, procedures, and actions above confirm how the College is able to properly identify a problem, resolve a problem, and enhance controls to prevent recurrence. All these actions occurred before the audit review during the normal course of business.

Auditor’s Comment: When we brought this issue to BCCC’s attention during the audit, there was no evidence to suggest that BCCC was aware that employees were sharing corporate purchasing cards or had identified the extent of the related activity.

Finding 3

BCCC granted salary incentives or increases totaling \$129,150 to four senior management positions without adequate justifications, including three increases that were not approved by its Board of Trustees.

Recommendation 3

We recommend that BCCC ensure that salary increases and incentives are appropriately justified, in accordance with the terms of employment contracts, and approved by the Board of Trustees, as required.

BCCC Response: We do not concur.

First, as the finding correctly notes, the Board has delegated the authority to establish salaries and terms of employment for BCCC employees to the President. There is no BCCC policy that requires salaried positions exceeding \$100,000 to be approved by the Board of Trustees. Secondly, any salary increases or incentive pay, pursuant to an employment contract, were approved by the BCCC Board of Trustees.

Auditor's Comment: Although the response states that there is no BCCC policy requiring Board of Trustees approval for salary positions exceeding \$100,000, it also states that BCCC obtained approval for the increases and incentive pay identified in our finding. On numerous occasions during the course of our audit, we requested evidence of these approvals but it was never provided.

Finding 4

BCCC did not maintain a current and comprehensive agreement with its affiliated foundation, as required. In addition, the most recent agreement did not contain any financial or operational goals and outcomes to be achieved by the foundation even though BCCC subsidized a significant percentage of the foundation's expenses during fiscal years 2015 and 2016.

Recommendation 4

We recommend that BCCC establish a comprehensive agreement with its foundation that establishes formal goals and outcomes for the foundation and identifies the related BCCC funding to be provided. In addition, the foundation agreement should identify any planned steps or actions to enhance fundraising and/or reduce non-scholarship costs.

BCCC Response: We concur.

The College agrees that a new comprehensive agreement with the BCCC Foundation needs to be updated. That agreement will establish formal goals and outcomes, as appropriate.

Finding 5

Sensitive personally identifiable information (PII) maintained by BCCC was stored without adequate safeguards.

Recommendation 5

We recommend that BCCC

- a. perform a complete inventory of its systems and identify all sensitive PII,**
- b. determine if it is necessary to retain this PII and delete all unnecessary PII,**
- c. determine if all necessary PII is properly protected by encryption or other substantial mitigating controls, and**
- d. update its databases and systems with encryption capability and then encrypt all sensitive PII not otherwise properly protected or employ other substantial mitigating controls to protect this data (repeat).**

BCCC Response: We concur.

- a. BCCC began to compile an inventory of sensitive PII on September 29, 2017. The inventory will be completed by December 31, 2017.
- b. An analysis of the PII inventory will be completed, and all unnecessary PII (outside of the legacy systems) will be deleted by April 30, 2018.
- c. Necessary PII will be protected through all available means, including encryption and/or other substantial mitigating controls, by June 30, 2018.
- d. As legacy databases and systems are replaced, all sensitive PII will be protected through encryption.

Finding 6

Malware protection for BCCC computers was not sufficient to provide BCCC with adequate assurance that its computers were properly protected.

Recommendation 6

We recommend that BCCC

- a. ensure, on an ongoing basis, that all active computers have current signature files, and up-to-date malware protection software installed, and operational;**

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- b. limit the assignment of administrative rights on workstations to specific system/network administrators and those users specifically allowed such rights, with any such assignments to non-information technology administrators being justified, approved, documented, and regularly reviewed to determine whether they are still needed (repeat); and**
- c. ensure that all workstations are kept up-to-date for critical security related updates for commonly vulnerable applications (repeat).**

BCCC Response: We concur.

- a. BCCC implemented process improvements on October 17, 2017 to ensure that all active computers have current malware protection software and signature files installed. Daily checks are performed to ensure that all active computers are up to date and failures are tracked and remedied.
- b. BCCC limits the assignment of administrative rights on workstations to key personnel within a specific security group and maintains an exceptions list of users with administrative rights who are not in the group. BCCC will begin quarterly reviews of the exceptions list in January 2018, documenting approvals and justifications. By April 1, 2018, BCCC will establish a procedure to regularly review all exceptions.
- c. BCCC will maintain critical security related updates for commonly vulnerable applications on all workstations.

Finding 7

BCCC did not immediately restrictively endorse checks and deposit collections timely at its Liberty Campus.

Recommendation 7

We recommend that BCCC

- a. restrictively endorse checks immediately upon receipt, and**
- b. ensure that receipts are deposited timely.**

BCCC Response: We concur.

- a. BCCC has implemented the controls to address coding issues and
- b. will address the timing of processed checks due to the physical proximity of the mail room and the cashiers' office.

Finding 8

BCCC did not maintain complete and accurate equipment records, could not locate certain equipment, and could not document that it conducted physical inventories of equipment as required. In addition, 40 computers purchased several years ago were never placed into service.

Recommendation 8

We recommend that BCCC

- a. ensure that the equipment records are complete and accurate;**
- b. investigate the aforementioned missing equipment and take appropriate corrective action;**
- c. conduct documented physical inventories of sensitive and non-sensitive equipment, as required, and reconcile the results to the detail inventory records; and**
- d. refrain from purchasing equipment that is not needed for immediate use.**

BCCC Response: We concur.

- a. The issues discussed in the finding relate to the physical location of the assets. Once the physical inventory is taken as discussed in letter “c”, below, the proper documentation will be completed and sent to DGS, including the Annual Report of Missing or Stolen Property to ensure that BCCC’s records are complete and accurate and the asset locations are properly updated based on the physical inventory.
- b. As discussed above, without a physical inventory, assets listed as being in one location in the property system may indeed not be missing but instead located in another location. Once the physical inventory is taken, the proper documentation will be completed and sent to DGS, and the location and other relevant information regarding the equipment will be updated in the property inventory system. Any assets not located will be reported to DGS as is required.
- c. As part of a recent DGS audit, in FY17, BCCC hired an outside company to take a complete inventory of BCCC’s sensitive and non-sensitive equipment. BCCC’s AAG has been assisting us to resolve the issue. BCCC will await instructions from the AAG and DGS on how to proceed to complete the inventory. Once the inventory has been taken, it will be reconciled to the detail inventory records.

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- d. BCCC concurs with this recommendation. Kindly be advised that the college does not engage in the practice of purchasing computer equipment and not deploying same in a timely manner. In relation to recommendation “d” this was an isolated incident.

The 40 computers were purchased in FY15 (September, 2014 and June, 2015). They were property tagged and paid for. Because the last physical inventory was in FY14, it was not obvious to BCCC administration that these computers were sitting in ‘storage’. This would have been evident with a physical inventory.

It is our understanding that the Department does intend to upgrade the software, and once that occurs, the computers will be deployed. If the software upgrade does not take place before the end of October 2017, these computers will be re-allocated and deployed in labs before the Thanksgiving Break.

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